India

Neutral *(Initiating coverage)*

Highlighted Companies

UltraTech Cement Ltd

ADD, TP Rs7592, Rs6653 close

Above-industry volume growth, positive operating leverage, continuous deleveraging and improvement in ROE and RoCE are the key stock catalysts going forward, in our view.

Ambuja Cements Ltd

ADD, TP Rs353, Rs316 close

Market share sustenance led by capacity addition to be key, with increased focus on efficiency. Locational advantages, cost-saving initiatives and healthy balance sheet will drive re-rating, in our view.

Ramco Cements Ltd

ADD, TP Rs1132, Rs965 close

Regional diversification with market share gain, while its execution capability reflected its cost leadership. Deleveraging to kick in much faster given strong free cash flow generation in the coming years and to become debt free by early FY24F, in our view.

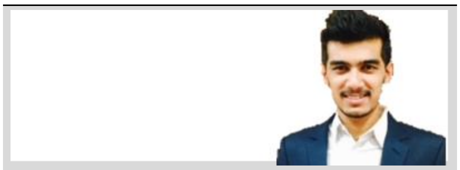
Summary Valuation Metrics

P/E (x)	Mar21-F	Mar22-F	Mar23-F
UltraTech Cement Ltd	34.41	29.42	24.43
Ambuja Cements Ltd	35.01	29.84	24.62
Ramco Cements Ltd	28.79	26.55	21.36

P/BV (x)	Mar21-F	Mar22-F	Mar23-F
UltraTech Cement Ltd	4.35	3.94	3.53
Ambuja Cements Ltd	3.09	2.88	2.67
Ramco Cements Ltd	4.04	3.57	3.11

Dividend Yield	Mar21-F	Mar22-F	Mar23-F
UltraTech Cement Ltd	0.2%	0.82%	0.99%
Ambuja Cements Ltd	5.85%	1.01%	1.42%
Ramco Cements Ltd	0.31%	0.38%	0.47%

Analyst(s)



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Cement

Be selective

- We believe cost control will remain the dominant theme for FY22F-23F cement sector. Companies whose costs rise lower than industry average will do well.
- Raw material costs of marginal cement capacities with mines won in auctions will be higher by Rs400/t in coming quarters than for old plants.
- We prefer companies with cost advantages, growth levers and market share gains like UTCEM and ACEM. In mid & small caps we like TRCL and BCORP.

Cost control to the fore as capacity utilisation will remain subpar

In the coming years cement capacity utilisation is likely to remain subpar as capacity additions will outstrip demand growth. We expect capacity utilisations to touch 77% by FY27F. In this scenario, as has happened in the past, cement prices will likely move in tandem with average industry cost increases. Companies that can keep costs under control are likely to rise in profitability, in our view. We expect raw material costs for the average industry player (who is winning mines in auction) will increase by Rs400/t in coming quarters. Existing cement companies have an intrinsic advantage as they have been previously allocated mines and do not have to pay a premium. Good and Services Tax (GST) has provided another opportunity to optimise the supply chain. Pan-India companies are likely to have lower incremental cost increases in outward/inward freight, in our view.

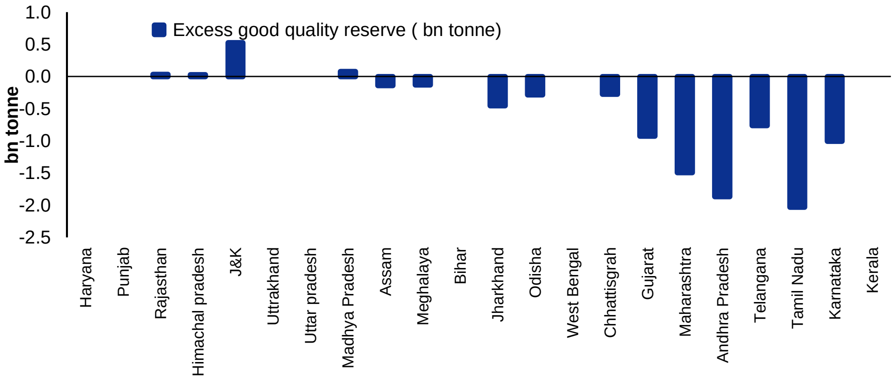
Industry RoCE to decline, but cost increase to be passed through

Unabated capacity addition has led to a decline in industry RoCE. In FY19 (the last year for which we have industry P&L data, Source: Ace Equity, an industry data source), industry RoCE fell below 10% and we expect the spate of capacity addition to lead to a single-digit fall (~8%) by FY23F. Industry seems compelled to create capacity and over FY04-19 87% of operational cash flow was invested in building capacity, resulting in huge overcapacity. We believe the industry's pricing discipline has led it to pass on cost pressures (on average). We believe the performers will likely be companies that manage their costs better than the industry average.

We initiate coverage with Neutral; UTCEM our top sector pick

High valuations and lack of pricing power are negatives for the sector, but the ability to pass through cost increases and pricing discipline are positives. Risk and reward appear to balance; hence we initiate coverage on the cement sector with a Neutral rating. We prefer large companies with pan India presence however even some mid cap companies like Ramco Cement and Birla Corporation gives us reassurance on volume growth led by their expansion plans. We rate UTCEM and ACEM as our top sector pick. Our Add rating stocks pecking order is UTCEM, ACEM, TRCL, BCORP and HEIM. Hold rating on ACC, and JKCE while Reduce on SRCM. Upside risk to the sector rating remains rapid increase in prices, while the COVID-led demand slowdown remains a downside risk.

Figure 1: Availability of low-silica limestone will determine profitability in coming years. In FY21, old mines had a Rs400/t advantage over new auctioned ones



SOURCES: INCRED RESEARCH, COMPANY REPORTS

KEY CHARTS

Figure 2: For the past few years Indian cement demand has remained way below historical demand

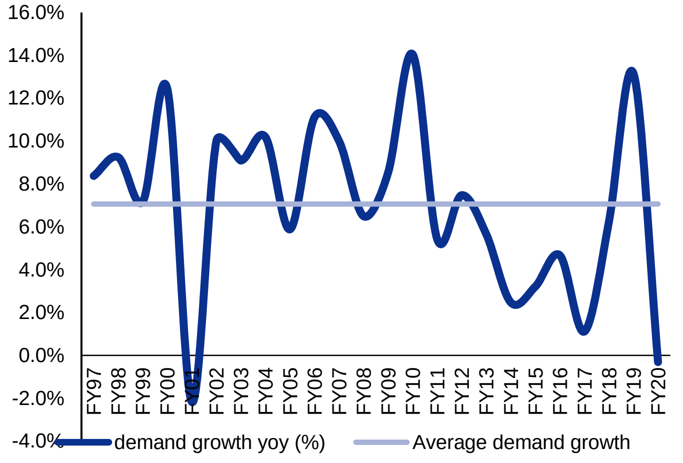
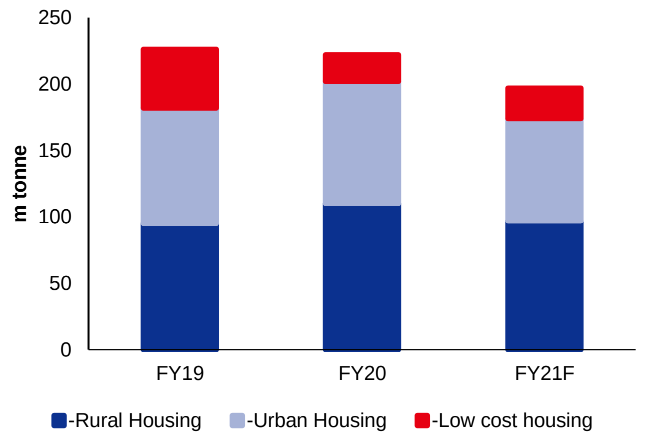


Figure 3: Cement demand has remained below the historical level despite resilient housing demand



SOURCES: INCRED RESEARCH ESTIMATES, MOSPI

Figure 4: As infrastructure expenditure lagged, so did cement demand

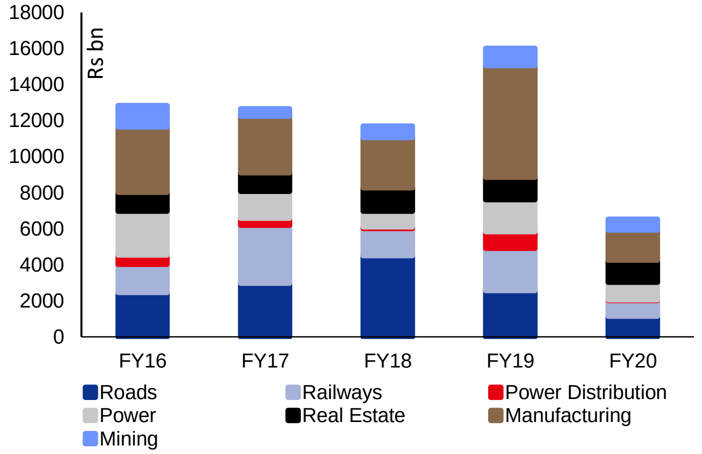


Figure 5: Going forward, positive government policies could lead to cement 7-8% demand CAGR over FY22-24F

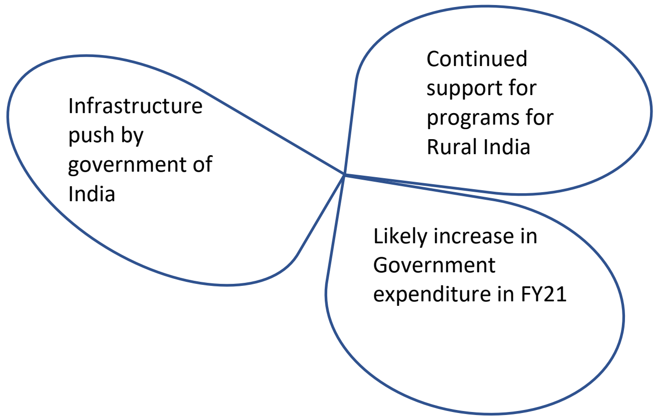


Figure 6: Continued capacity addition will keep capacity utilisation low

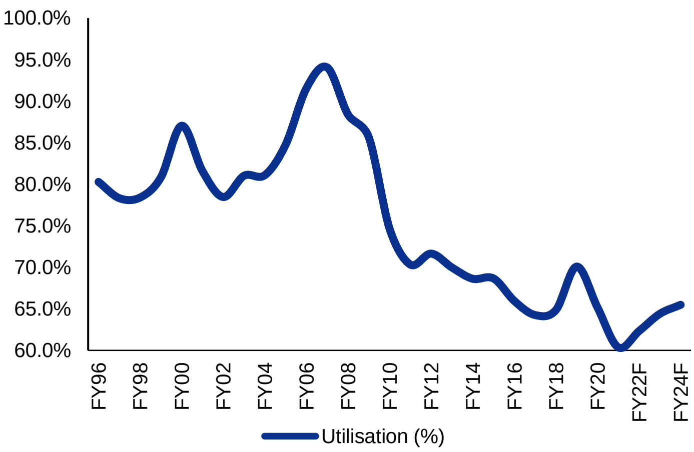
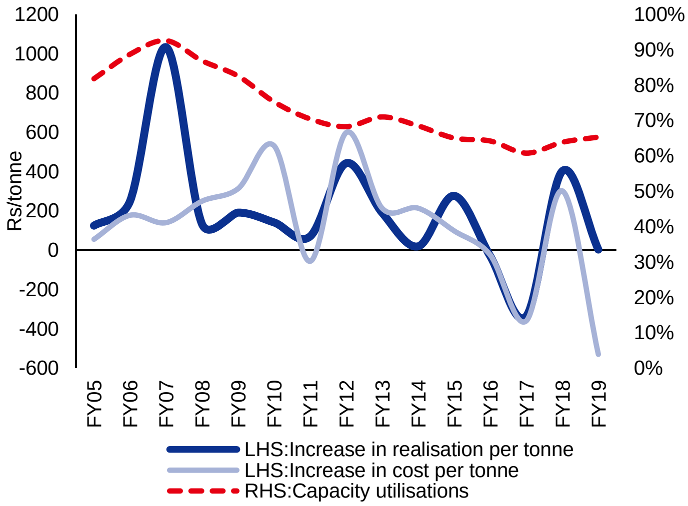
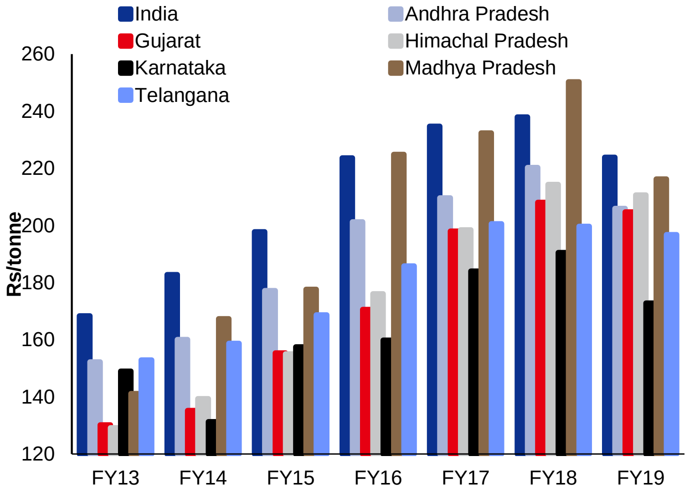


Figure 7: In this scenario cement prices barely managed to keep up with costs



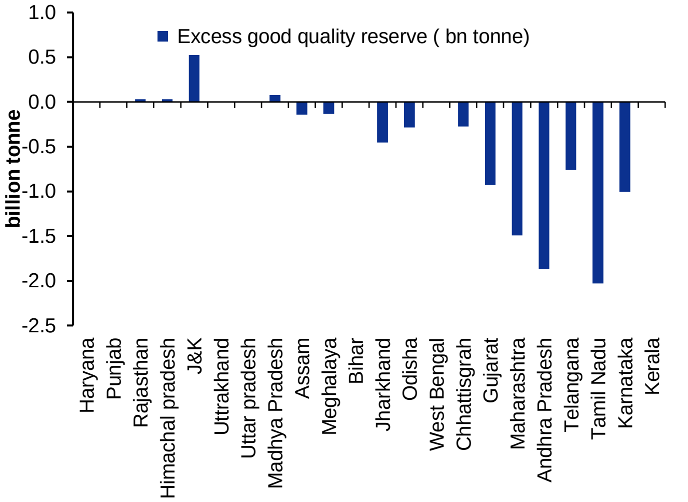
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Key cost components, like limestone, have increased over the years



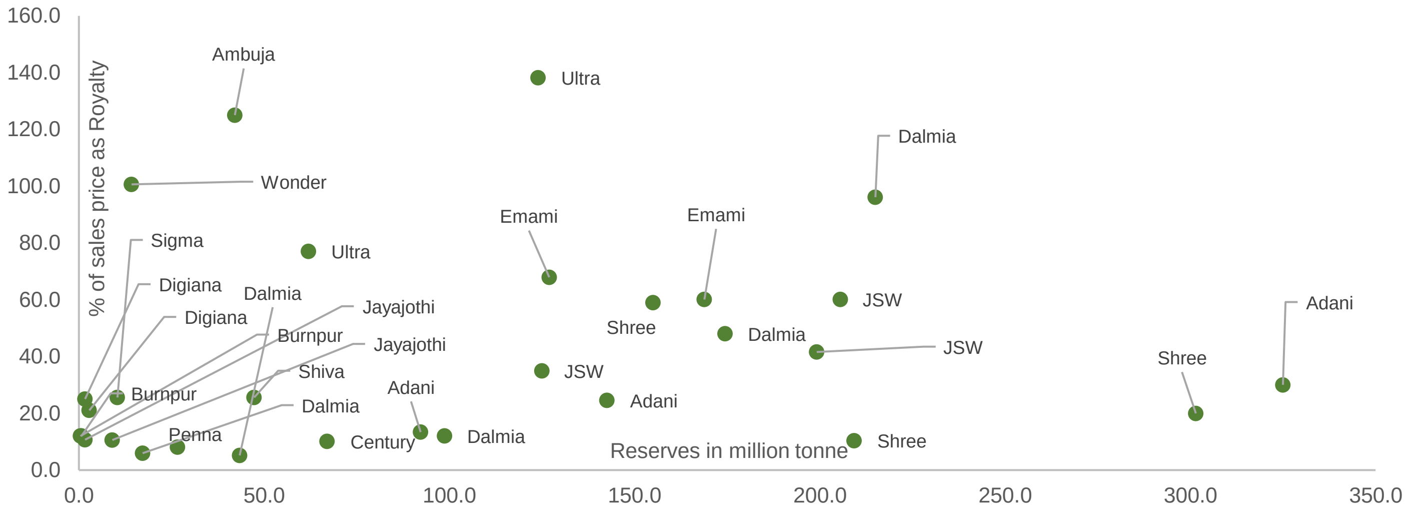
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Low silica and high CaO-content limestone reserves are not enough to run existing plants for the next 40 years



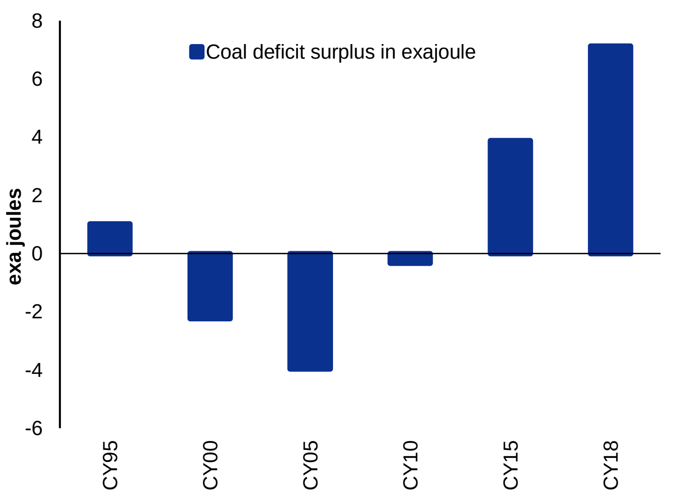
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: High premiums paid on limestone mine auctions indicate structural rise in industry raw material costs



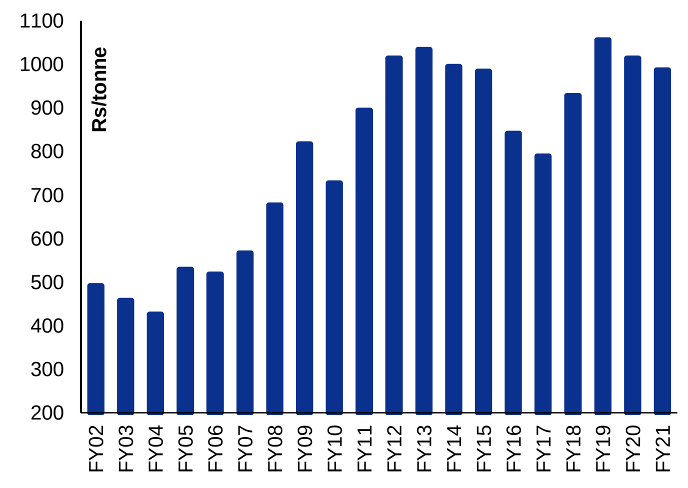
SOURCES: INCRED RESEARCH, MINISTRY OF MINES WEBSITE

Figure 11: Industry coal prices are in structural downturn as usage is declining



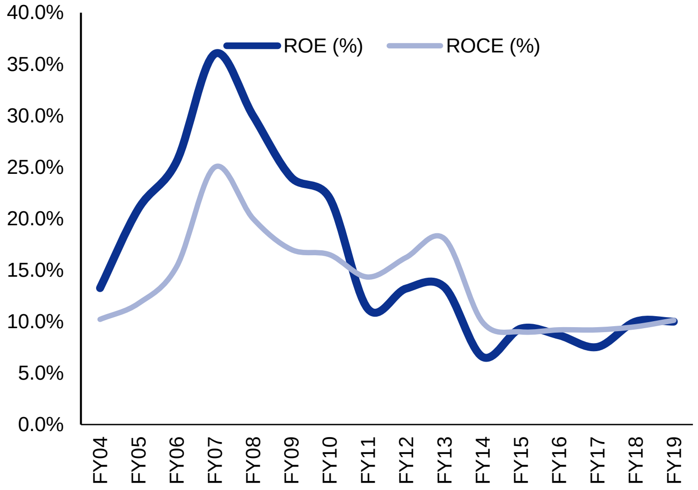
SOURCES: INCRED RESEARCH, WWW.EIA.COM

Figure 12: However, volatile pet coke, depreciating rupee and increased use of bad raw meal will keep power and fuel sideways



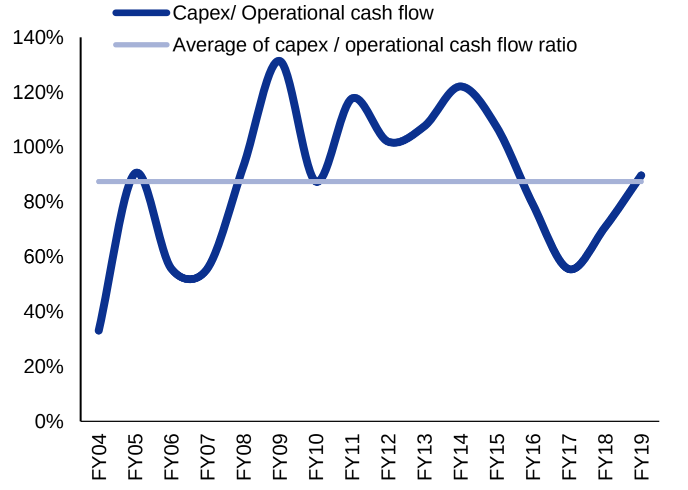
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 13: Cement industry RoE and RoCE have been below 12% for the past few years



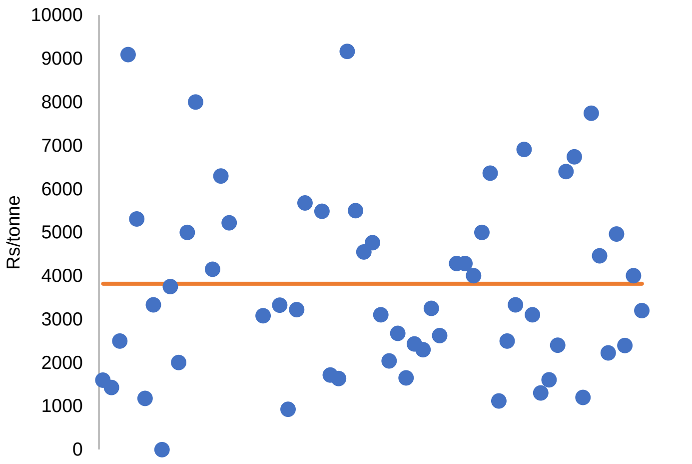
SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 14: Industry capex has remained high vis-à-vis operational cash flow



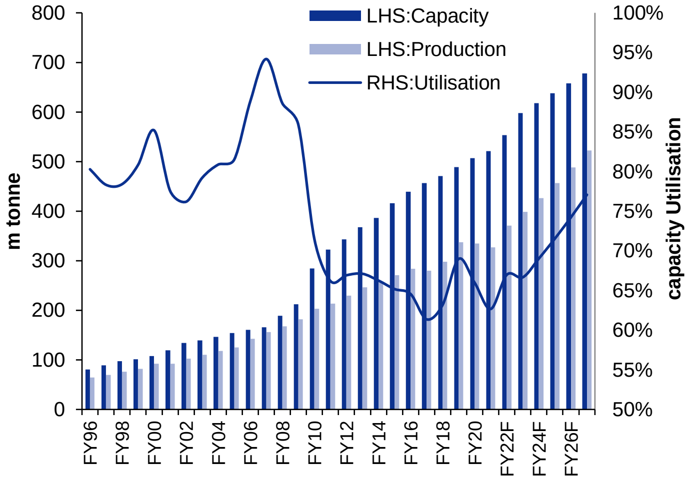
SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 15: New capex over FY16-FY21 (Rs/tonne)



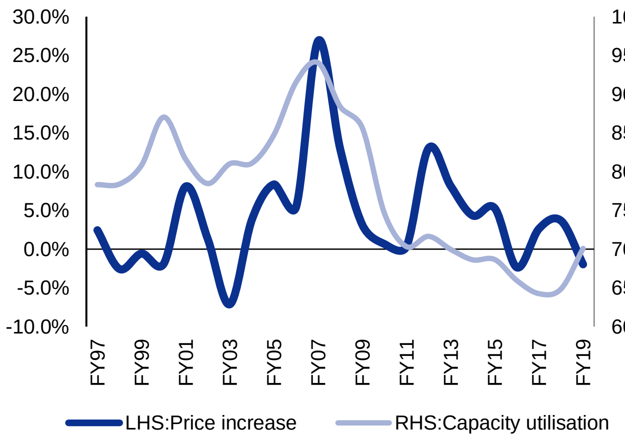
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 16: We don't see cement capacity utilisation nearing 80% in the coming 7 years (FY22-FY27F)



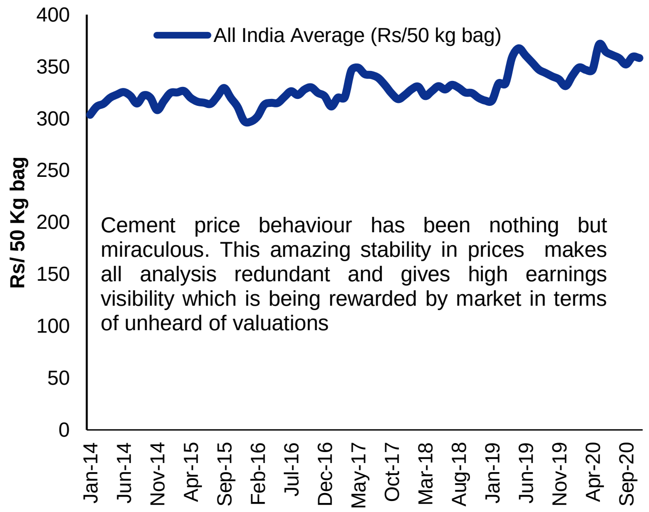
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 17: Price upswing comes when utilisation crosses 85%, which is unlikely in next 10 years



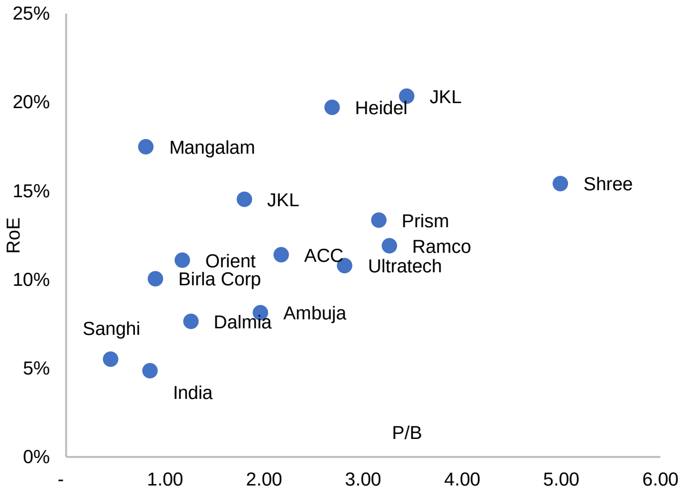
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 18: Investors remain sanguine on sector as cement prices have been remarkably stable



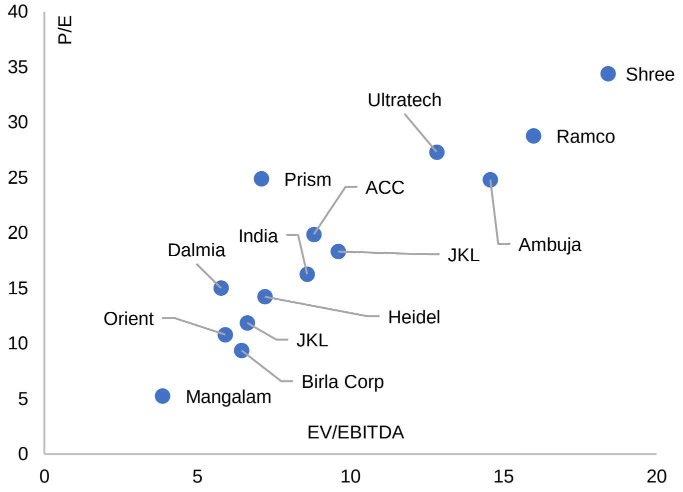
SOURCES: INCRED RESEARCH

Figure 19: Many banks will envy the valuation enjoyed by Indian cement companies (on FY22 based)



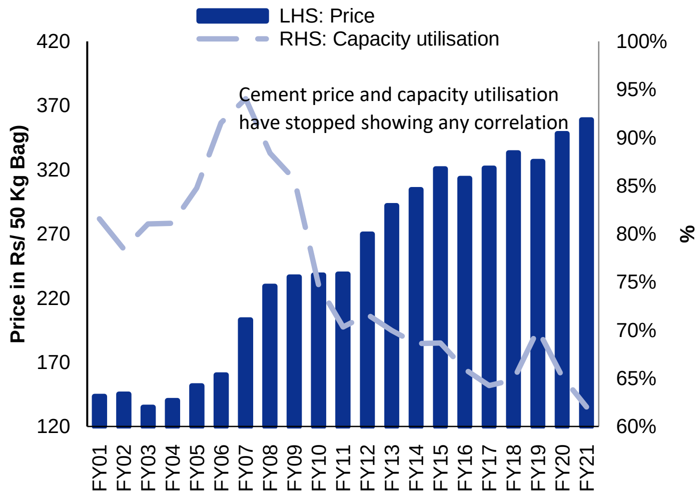
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 20: Even based on P/E and EV/EBITDA, valuations are high – almost at par with FMCG valuations



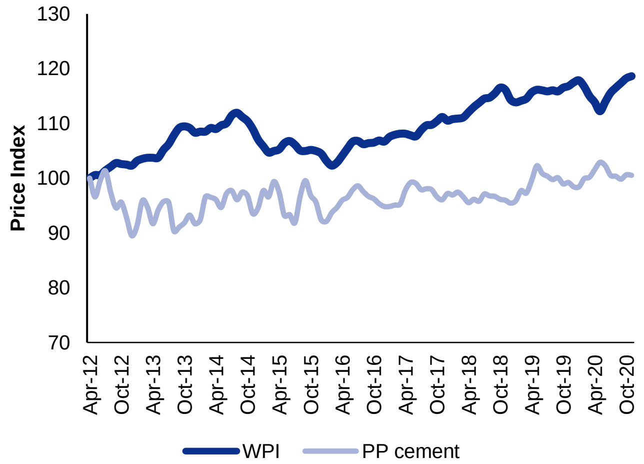
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 21: Fortunately for cement companies, prices are not behaving in line with normal economic principles



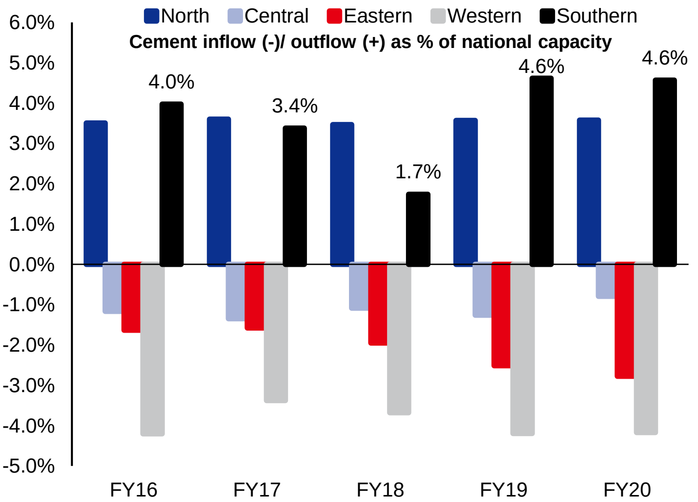
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 22: For 8 years cement underperformed WPI, but price volatility was very low



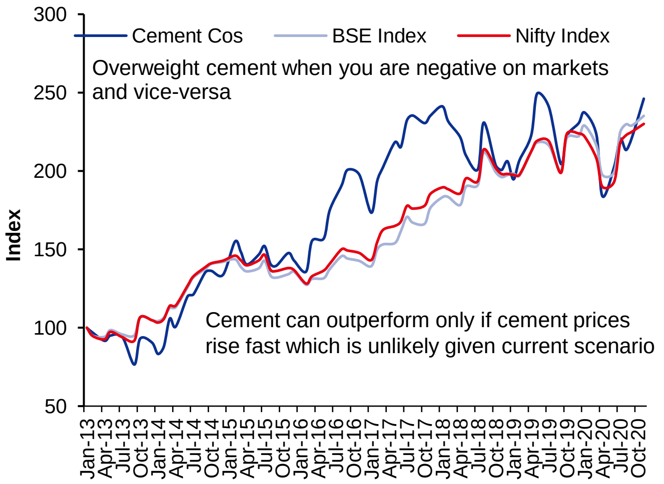
WPI = WHOLESALE PRICE INDEX
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 23: South India remains key for national prices



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 24: High valuations leave little room for rerating, at best stocks can be market performers



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Be selective

Low-capacity utilisation, prices roughly following the Wholesale Price Index (WPI), continued industry capex, decreasing cost of incremental capacity, single digit demand growth prospects and high valuations leave little room for earnings surprises. Having said that, unprecedented pricing stability provides a big cushion to investors. The sector is likely to outperform the falling equity market and at best can be a market performer in the rising market. We do not advise a lower sector weight, but to be selective. Buy large cap liquid names. We like UltraTech and Ambuja Cement.

Industry cost structure is going to get worse

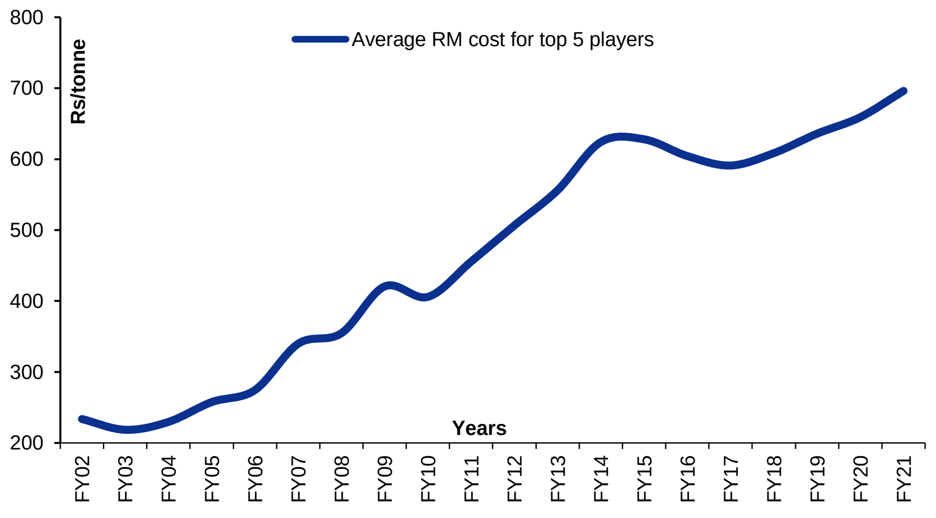
The Indian cement industry has long enjoyed practically free limestone, which resulted in very low raw materials (RM) costs. However, given the Supreme Court judgement of 2010 in the coal scam case, auctions have become the preferred route for natural resource allocations. This has led to the auction of limestone mines, which means that the cost of production has been increasing over time.

Cement raw material costs have been increasing ➤

Almost all cement companies have been witnessing RM cost increases as:

- Mining costs of limestone have risen,
- Royalty on limestone has increased to Rs82/t in FY21 (from Rs50/t FY14-15),
- Fly ash which cost almost nothing has started to cost Rs150-200/t for all cement companies.

Figure 25: Over the last 20 years RM cost has become 3.5x per tonne (per bag increase has been around Rs25/tonne) in India

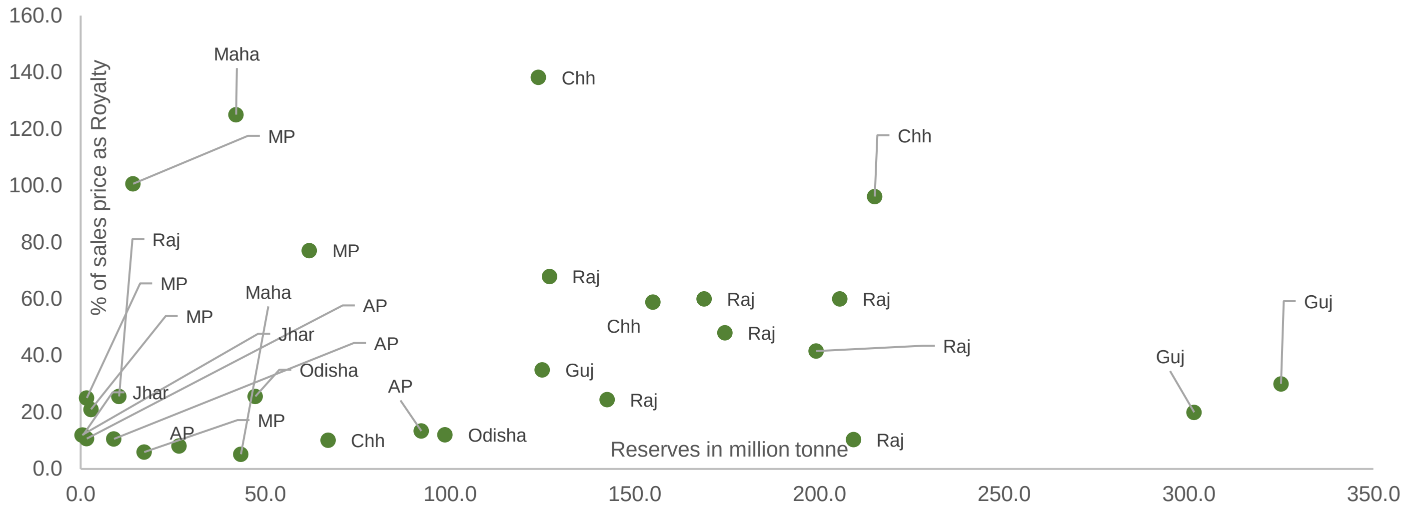


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Raw material costs rose for new companies ➤

As shown in the chart below, the auction royalty premium was high for all the companies.

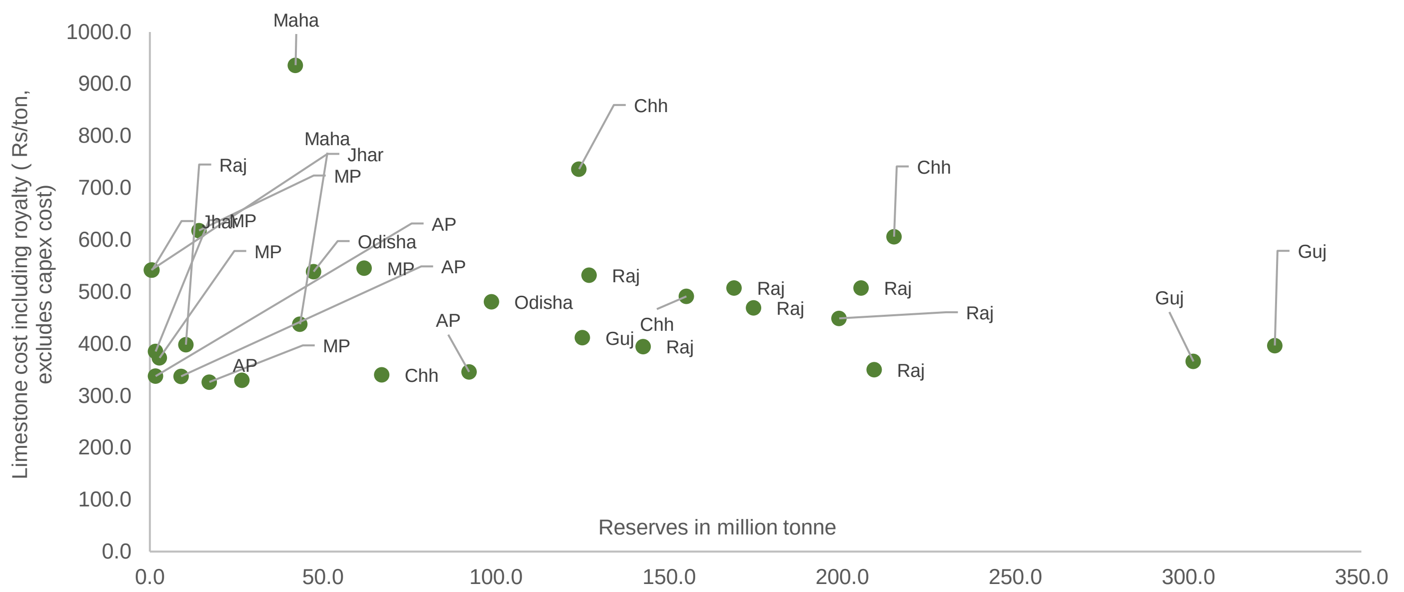
Figure 26: As evident from the auction data in Andhra Pradesh and Rajasthan, even small reserves fetch significant premiums. Gujarat attracts low premiums because freight costs to key cement markets are high



SOURCES: INCRED RESEARCH, COMPANY REPORTS, AP = ANDHRA PRADESH, MAHA = MAHARASHTRA, MP = MADHYA PRADESH, RA = RAJASTHAN, GUJ= GUJARAT, CHH= CHATTISGARH, MP= MADHYA PRADESH, JHAR= JHARKHAND
SOURCES: INCRED RESEARCH, COMPANY REPORTS

These premiums are calculated on prevailing Indian Bureau of Mines (IBM) prices in the state. The premiums paid on these mines are given in the graph below. Premiums have been calculated on the average prices of FY20.

Figure 27: Premiums paid on prevailing prices in relevant states (FY20)



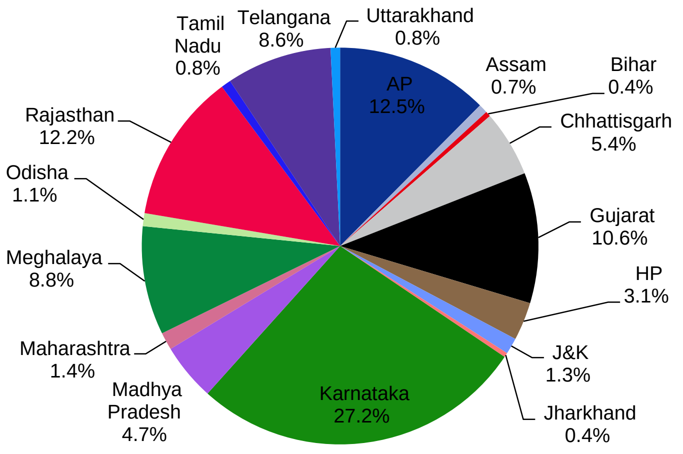
SOURCES: INCRED RESEARCH, COMPANY REPORTS,
AP= ANDHRA PRADESH, MAHA= MAHARASHTRA, MP = MADHYA PRADESH, RA= RAJASTHAN, GUJ= GUJARAT, CHH= CHHATTISGARH, MP= MADHYA PRADESH, JHAR= JHARKHAND
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Location of limestone mines in India indicate auctions will get costlier and costs will keep rising ➤

Most of India's limestone reserves are in states with significant cement capacities. This means most high-quality proven reserves would already have been taken for the existing plant.

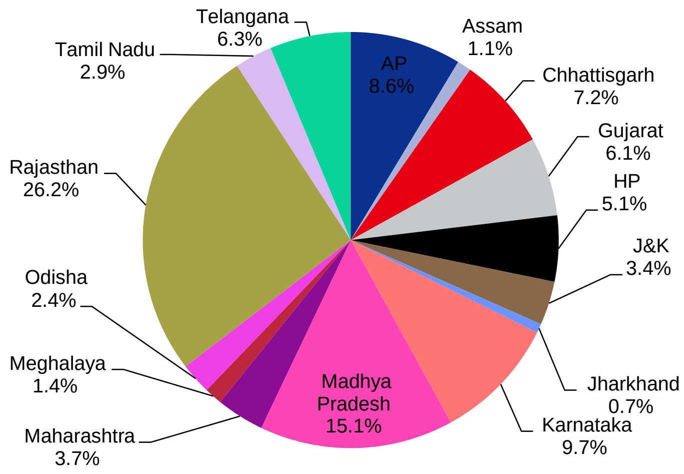
Established cement players have most of the good quality reserves

Figure 28: Most of the high-quality proven reserves in India are in Karnataka, Rajasthan & AP, and most were already taken by established companies as on FY21



AP= ANDHRA PRADESH, HP = HIMACHAL PRADESH
SOURCES: INCRED RESEARCH, COMPANY REPORTS, MINSITRY OF MINES

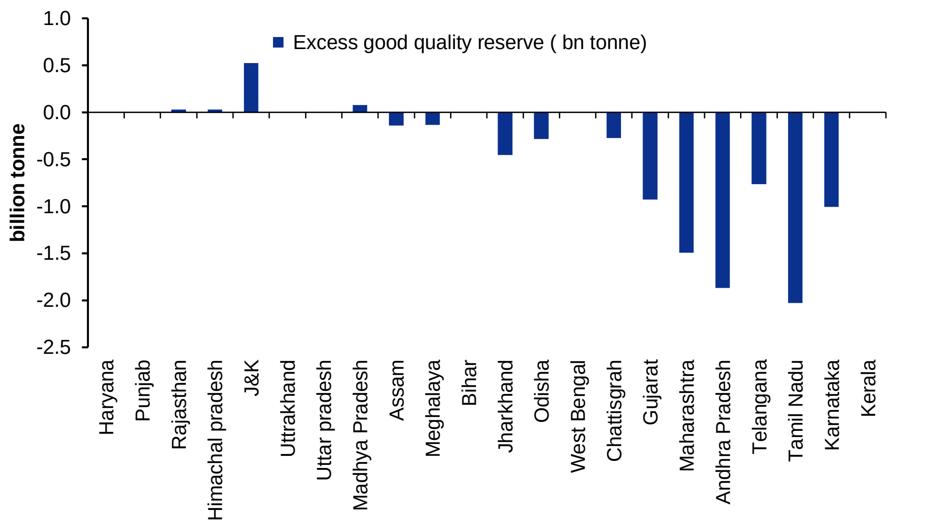
Figure 29: Karnataka topped Indian states with the most limestone resources as on FY21



AP= ANDHRA PRADESH, HP = HIMACHAL PRADESH
SOURCES: INCRED RESEARCH, COMPANY REPORTS, MINISTRY OF MINES

Analysis of existing capacity in various states indicates plants in some states may not have proven reserves to last 40 years

Figure 30: We are witnessing a scenario where proven good quality reserves may not sustain most South Indian plants for the next 40 years

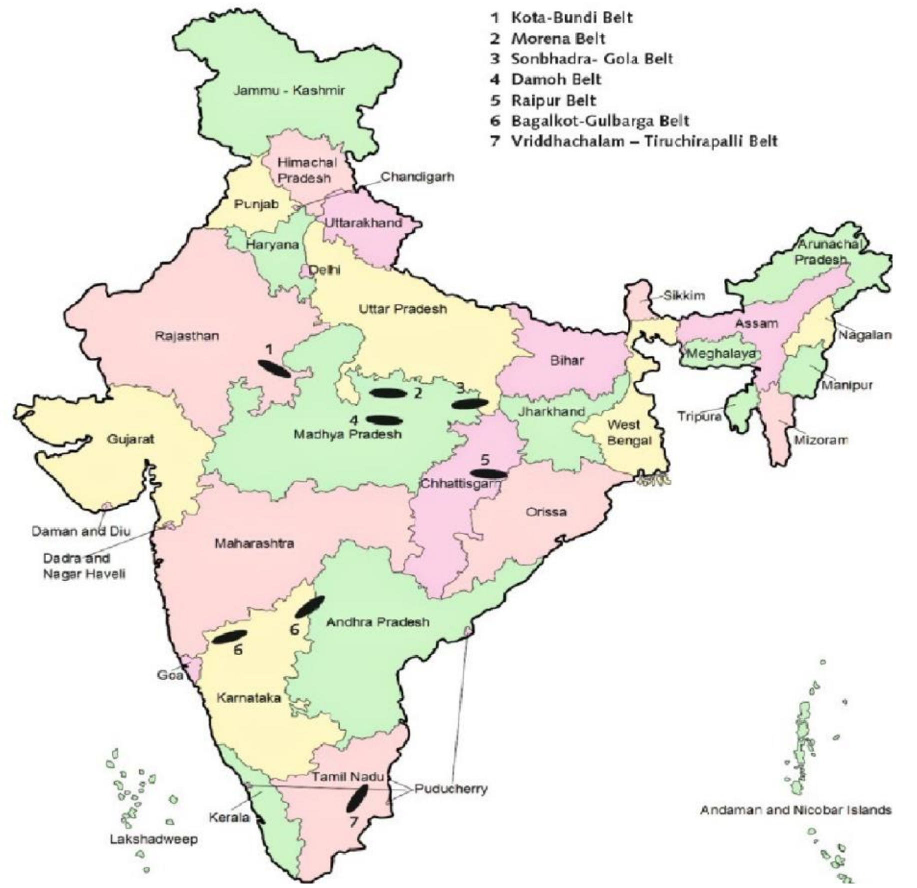


SOURCES: INCRED RESEARCH, COMPANY REPORTS

New capacities will be near marginal quality reserves & limestone requirement per tonne of cement will be higher

Except limestone reserves occurring in the northeastern states, Gujarat, parts of Andhra Pradesh, Telangana and Rajasthan, and Madhya Pradesh most of the deposits are low grade, with either high silica (SiO_2 16-20%) or magnesia (6-12% MgO or more) content.

Figure 31: Most new limestone mines have marginal limestone quality as they have high silica content (as at FY21)



SOURCES: INCRED RESEARCH, COMPANY REPORTS, INDIA GEOLOGICAL SURVEY WEBSITE

High silica content is a problem for the cement industry and requires beneficiation of limestone

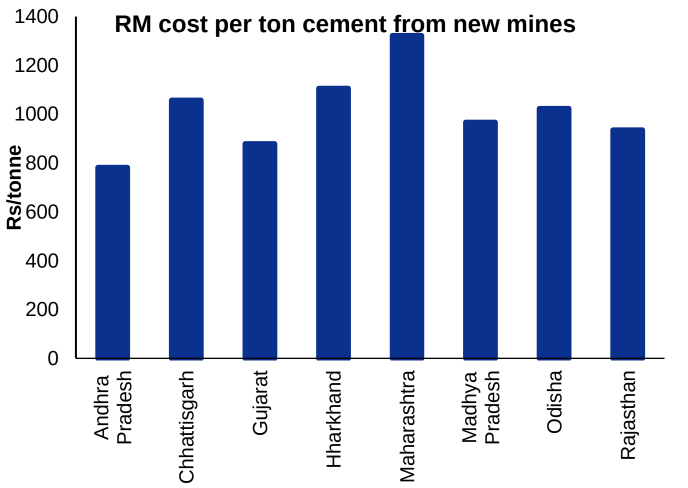
According to Indian cement manufacturing specifications, limestone should contain more than 45% CaO, Fe_2O_3 as well as Al_2O_3 1% to 2%, free silica less than 8%, combined Na_2O+K_2O of less than 0.6% and P_2O_5 less than 0.6%. The magnesia content of the limestone should ideally be less than 3%, although 5% MgO can be used by the cement industry. Hence, Al2O3, Fe_2O3 and CaO need to be added to compensate for the presence of high silica.

- Raw material needs to have LSF (lime saturation factor) = CaO/ ($2.8SiO_2+1.2*Al_2O_3+ 0.65*Fe_2O_3$). This ratio needs to be 92-98%.
- It needs the Silica ratio to be 2 to 3. Silica ratio = Sio_2/ (Al_2O_3+ Fe_2O_3).
- So high silica needs to be compensated by adding alumina, iron ore and good quality CaO.
- All these increase the cost of raw materials for the new cement plants.
- It is worth noting that all good quality limestone mines are already taken, and new mines have high silica content.

Companies with running mines have a cost advantage ›

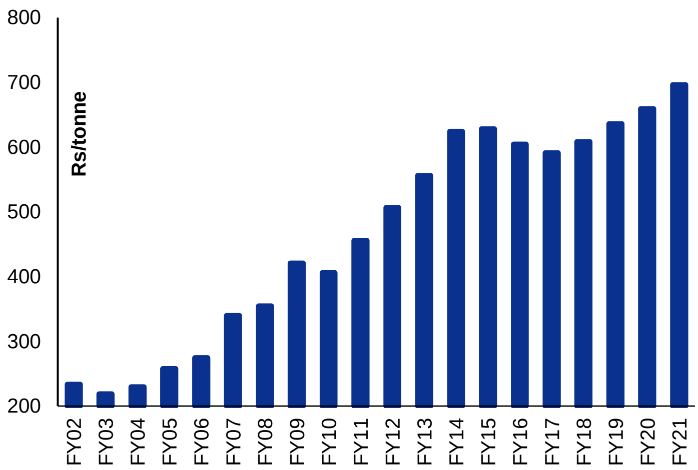
Old cement plants (companies that have existed for more than two decades) will have a cost advantage of Rs400/t over new mines. This cost advantage excludes capex required to open the mines. Consequently, at the same price old plants that have sufficient reserves could make Rs400/t higher EBITDA.

Figure 32: Average RM cost for cement produced from new mines is currently around Rs 1,400/t



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 33: Old cement plants have a cost advantage of at least Rs400/t



SOURCES: INCRED RESEARCH, COMPANY REPORTS

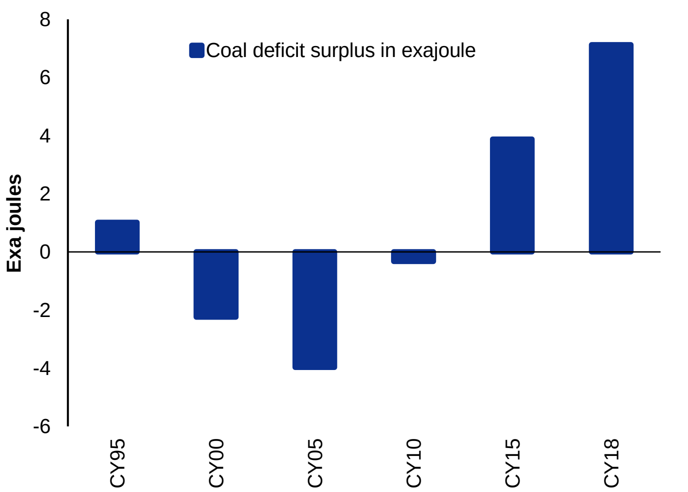
Power & fuel costs to stay sideways over next few quarters

Power and fuel costs have risen over time. Initially cement plants shifted to pet coke to avoid high-cost coal, but later the pet coke market became tight. Consequently, prices of pet coke rose and lost their advantage over coal.

Gobal coal usage is reducing as green energy grabs a bigger market share

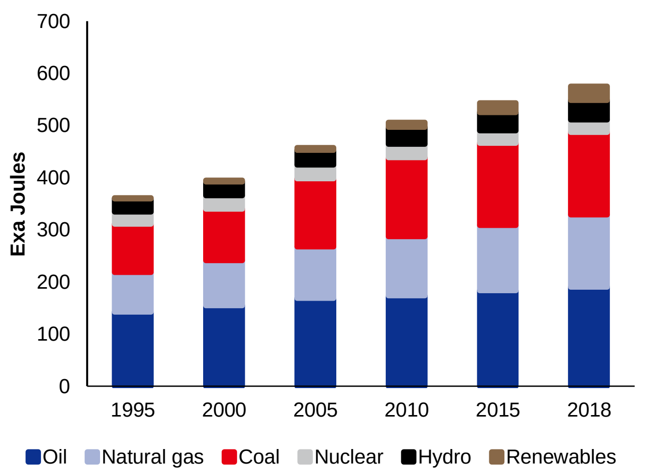
Globally coal consumption is falling as green energy is accounting for a larger share in incremental energy consumption. At the same time coal production is not falling, creating a glut of coal leading to pricing pressures in commodities.

Figure 34: A big surplus in coal means lower prices, which is good for Indian cement players



SOURCES: BRITISH PETROLEUM ENERGY REPORTS, COMPANY REPORTS

Figure 35: Renewables and gas are increasingly taking care of the energy needs of the world



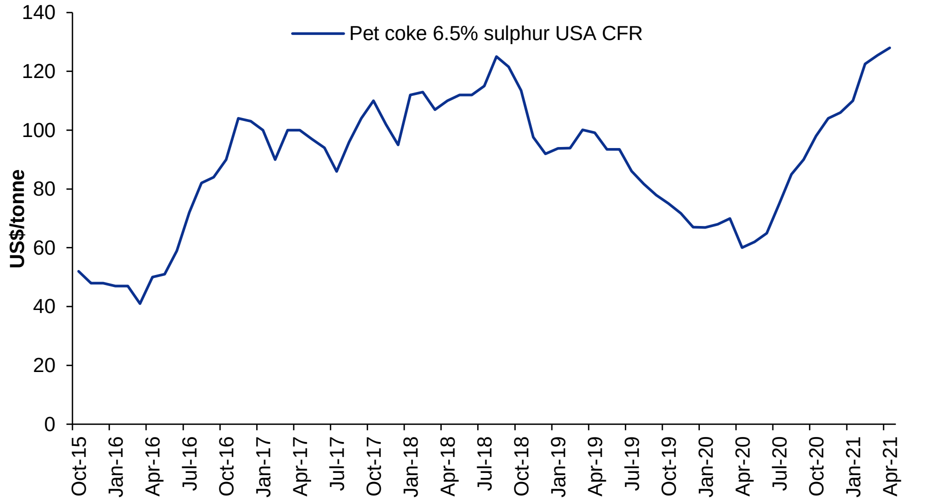
SOURCES: INCRED RESEARCH, COMPANY REPORTS

We expect pet coke prices to fall as the market will be oversupplied in the foreseeable future

- Pet coke has multiple uses – as a fuel, calcined pet coke in aluminum production, and needle coke in electric arc furnace cathode production.
- While its consumption as a fuel is declining as it emits hazardous gases, new aluminum technologies (like inert anode technology) will make calcined pet coke anode redundant in some time. As a result, we believe pet coke consumption will keep falling and, in turn, its prices.
- Over the next five years India's pet coke supply will increase by 6.5mt from the current supply of ~13mt.

- Reliance Industries Limited's (RIL) (RIL IN, Rs1,987CMP) gasifier alone could use 10mt of pet coke but given current LNG prices it does not make sense for RIL to operate the gasifier at full capacity, in our view. If LNG at the free-on-board level touches US$6.5MMBtu from the current US$2.5-3MMBtu, then RIL could use its gasifiers. However, till then the Indian market does not need more than 9m-10mtpa of imports.
- Falling Indian imports and environmental concerns will put a cap on the use of pet coke and prices will remain range bound.

Figure 36: Pet coke prices have been volatile but remain in a range. Unless there is a big rally in oil / LNG prices, pet coke won't have a big rally

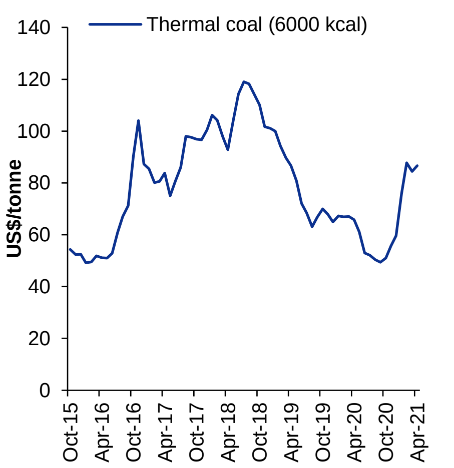


CFR = CODE OF FEDERAL REGULATIONS
SOURCES: INCRED RESEARCH, COMPANY REPORT

Indian cement companies use energy-saving measures to control costs

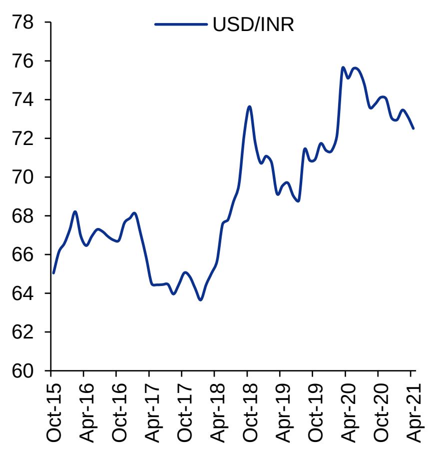
- The use of multiple stage air preheaters to heat the limestone before it reaches the clinkerisation zone is a standard practice among Indian cement makers. Many uses 7 to 8 stage air preheaters to heat the limestone up to 850 degrees centigrade before it reaches the clinkerisation zone, thereby utilising the waste heat of the kiln and reducing coal consumption.
- Electricity consumption in grinding is among the lowest for Indian cement makers. Most cement makers have reduced electricity consumption to lower than 85KwHr/tonne cement as at FY21.
- Most Indian companies use imported coal for clinker production, hence soft coal prices will help them. However, the rupee's depreciation is a long-term issue, hence at worst the power and fuel cost will remain at around the present level and in the best-case decline by 10-12% in the coming years, in our view.

Figure 37: Coal price will remain sideways in the near future



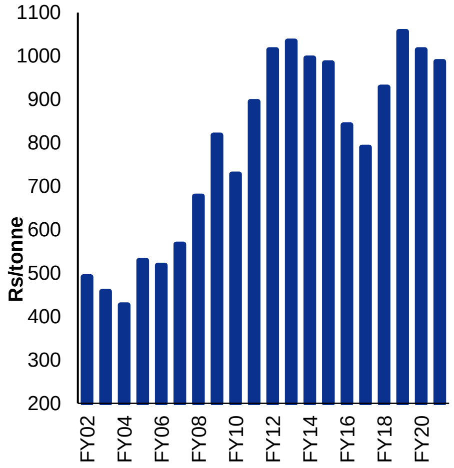
SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 38: Depreciating rupee will keep landed coal price high



SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 39: Power and fuel costs will remain sideways

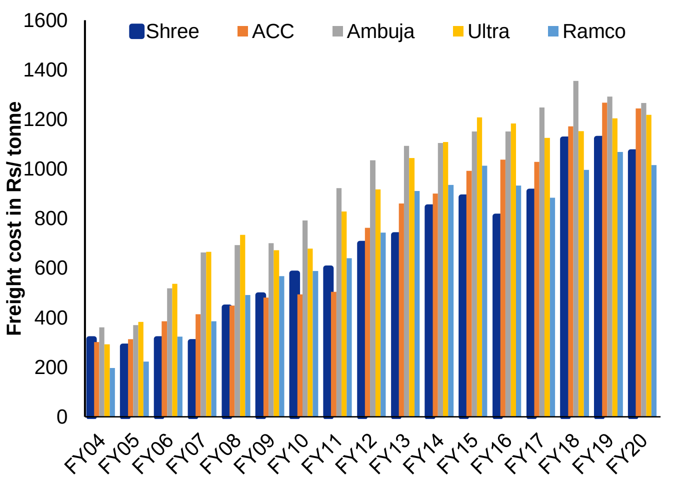


SOURCES: INCRED RESEARCH, COMPANY RESULTS

Cement overcapacity means higher lead distances, hence higher freight costs

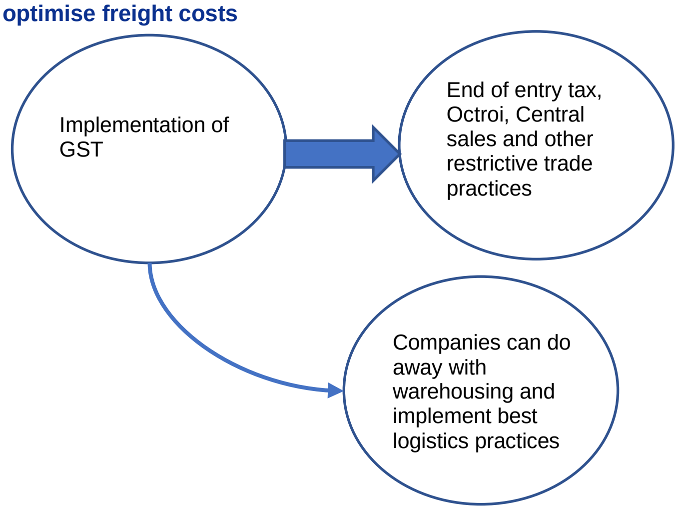
India's cement industry suffers from overcapacity, in our view, hence most of the time cement needs to travel large lead distances in search of demand. The concept of captive market is over for cement. At the same time diesel and petrol prices are near all-time highs, offering no respite for freight cost. We think freight costs will remain elevated going forward. We do not think there will be a major spike in this cost.

Figure 40: Freight costs for Indian cement companies increased consistently over the past few years



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 41: Going forward companies have enough levers to optimise freight costs



SOURCES: INCRED RESEARCH, COMPANY REPORTS

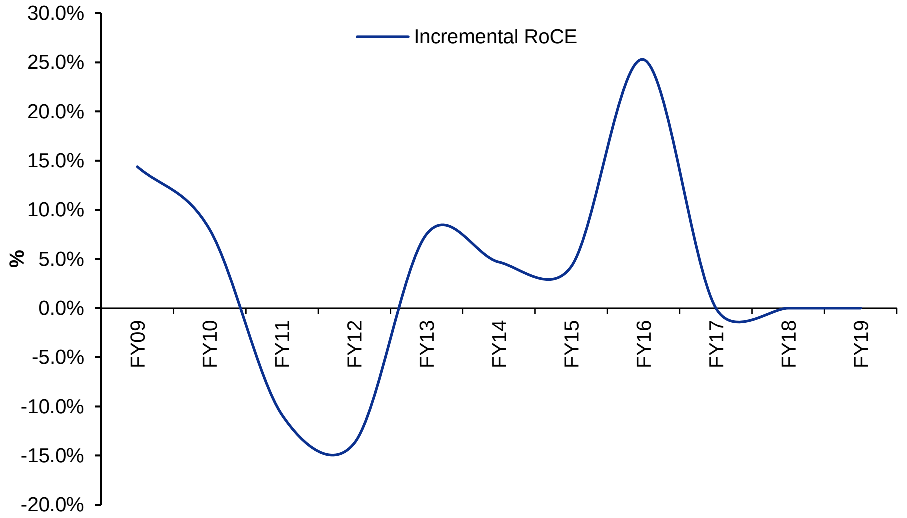
Industry capex – don't expect any change in behaviour

Incremental capacity expansion has lowered industry-wide RoCE over the last decade. Having said that, the market has rewarded capacity expansion by more than incremental cost of capacity addition. Prices have remained remarkably stable, removing the cyclicality in earnings, hence much higher earnings multiples are being awarded.

Modern financial theories do not count where the Indian cement industry is concerned ➤

- Incremental RoCE has always been lower than the cost of capita for industry as an aggregate for the last decade.
  - We expect capital employed will result in production after five years.
  - We assume incremental EBIT over the previous year to calculate incremental RoCE.
  - *For example, if incremental capital employed between FY10 and FY13 for Industry is X bn then incremental RoCE = (EBIT in FY15- EBIT in FY14)/X*

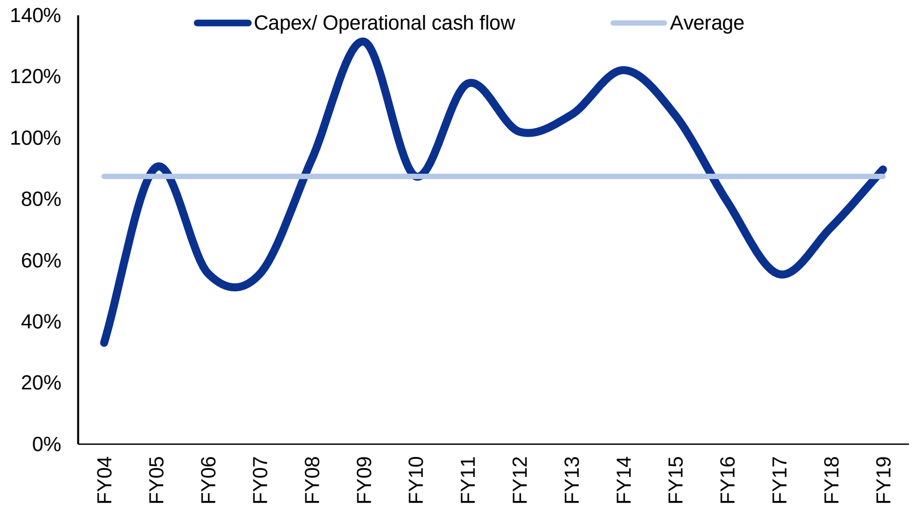
Figure 42: Cement industry has been a serial value destroyer as incremental RoCE has been many times lower than the cost of debt



SOURCES: INCRED RESEARCH, COMPANY REPORTS

- Despite below par returns the industry has always invested in incremental capex.

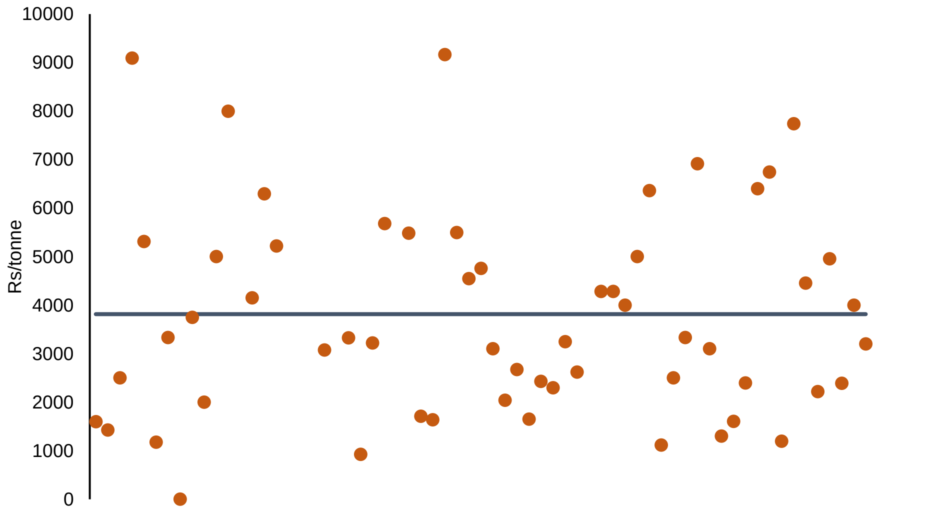
Figure 43: Despite below par returns the cement industry invested 87-90% of operational cash flow in capex



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Incremental capex cost has been falling; more capacity is being added at the same cash flow

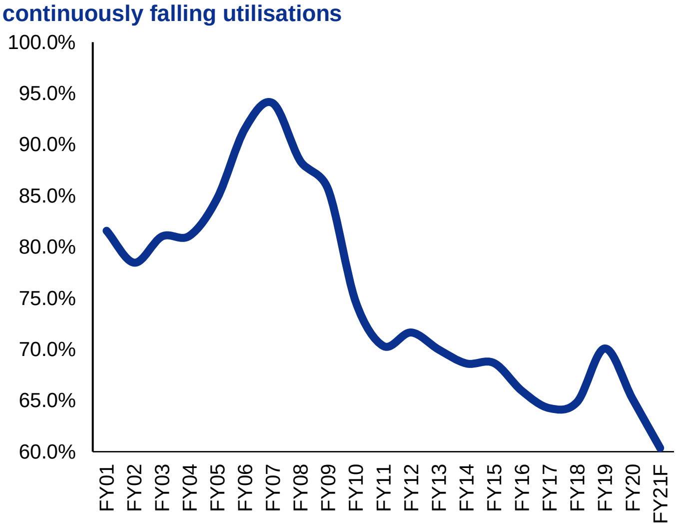
Figure 44: Average cost of capacity addition currently is around US$60/t, which leads to higher capacity addition in the same cash flow



SOURCES: COMPANY REPORTS, INCRED RESEARCH

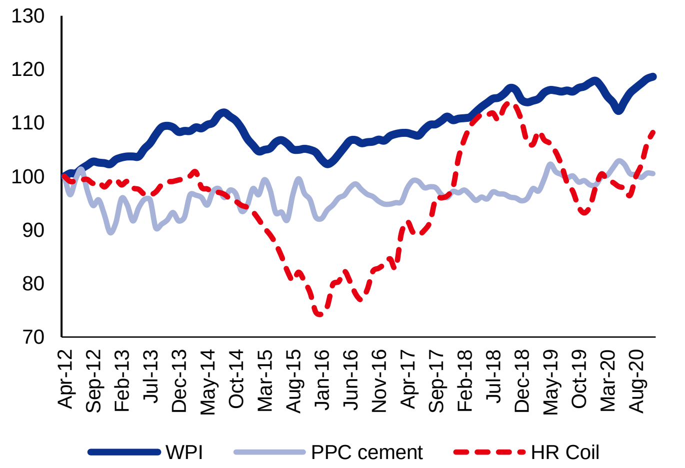
More capex has resulted in falling capacity utilisations; prices have stayed stable but not beaten WPI

Figure 45: Unprecedented capacity additions have led to continuously falling utilisations



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 46: Cement price has not beaten WPI but has been stable



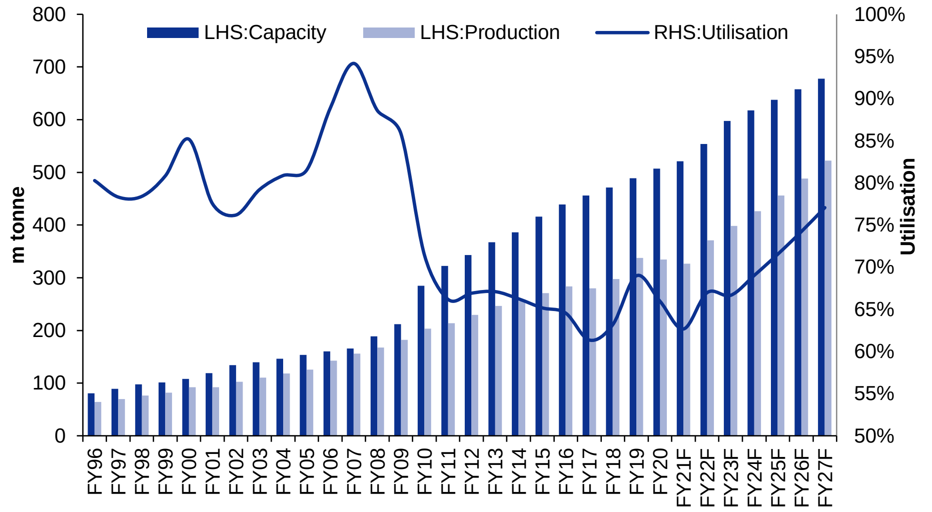
PPC = PORTLAND POZZOLANA CEMENT, HR = HOT ROLLED
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Unless demands improves drastically, utilisations will remain range bound

We have made the following assumptions for our calculations:

- Cement companies will keep investing 87% of operational cash flows in capex (FY04-FY19)
- They will not take on debt to fund new capex. However, if companies do take on new debt, then new capacity could be higher than our estimates.

Figure 47: Do not expect any significant improvement in capacity utilisations



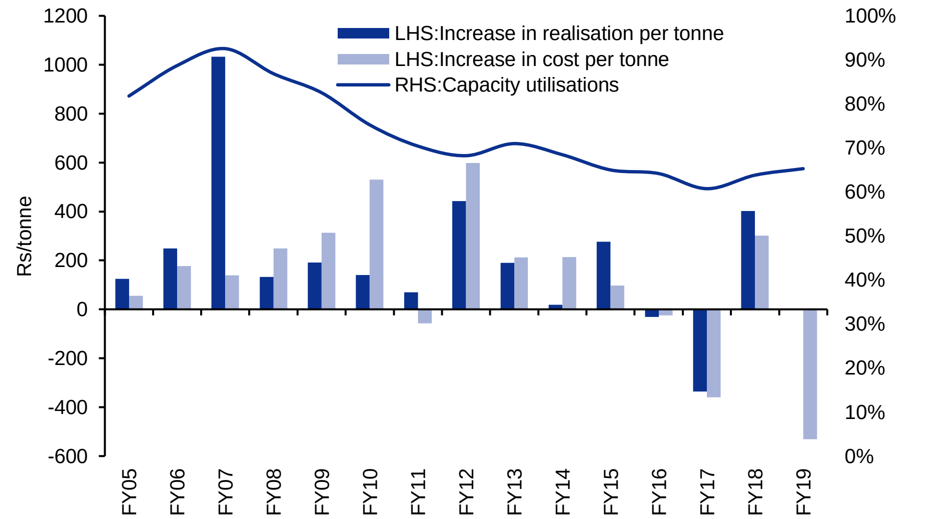
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Pricing trend to remain slightly upwards, driven by increasing COP for incremental production

Prices will be stable to upward sloping curves in the coming years. The main driver for prices will be cost. As argued in previous sections, we expect raw material costs for the industry to rise by Rs400/t or ~40%. As cement companies have been able to pass on the rise in costs for the last decade, despite falling utilisations, we believe this trend is likely to continue.

Cement companies have been able to pass on rising costs over the last decade despite falling utilisations ➤

Figure 48: Cement companies have been able to pass on the rise in costs



SOURCES: INCRED RESEARCH, COMPANY REPORTS

We don't expect this trend to change as new plants will barely make EBITDA at current prices ➤

We have assumed:

- A new cement plant is of 3mt capacity,
- It will operate at 70% utilisation,
- Raw feed has more than 16% Silica (SiO_2), which means it needs more Al_2O_3, Fe_2O_3 and CaO,
- Mine is won at an auction at 25-30% royalty of IBM prices,
- Clinker crushing operation will need 85 units/tonne,
- PPC will contain 35% fly ash and 5% gypsum,
- Lead distances will be at least 450-500km

Figure 49: According to the cost analysis of a new plant, based on auction-won mines with high silica content, the breakeven point will be ~Rs352/bag

Capacity	**3.0**	**m tonne**
Utilisations	70%	
Production	2.1	m tonne
Costing		
RM cost	1,400.0	Rs/tonne
Power and fuel cost	1,227.2	Rs/tonne
- Heat needed for clinker	750.0	Kcal/ kg
- Power needed	85.0	KwHr/ Tonne
Total heat needed for cement	962.5	Kcal/ kg
- Price of coal (Assuming 5500 Kg coal)	7,012.5	Rs/tonne
Cost of heat per tonne of cement	1,227.2	Rs/tonne
Freight and forwarding expenses	1,000.0	Rs/tonne
Total variable cost per tonne	3,627.2	
Variable cost	**7,617.1**	**Rs m**
Employee cost	800.0	Rs m
Other expenses	1,680.0	Rs m
Total cost	**10,097.1**	**Rs m**
Secondary freight and dealer commission	**1,470.0**	**Rs m**
Realisation for zero EBITDA	5,508.1	Rs /tonne
Equivalent price in market	7050.5	Rs /tonne
Price in Rs/ bag	***352***	***Rs/bag***

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Old cement plants with better limestone, brand presence could make ~1,200/t ➤

The same was apparent in recent quarterly results. Prices have risen since 2QFY21 and we can expect old cement companies to report ~1,200/t in EBITDA in medium-term.

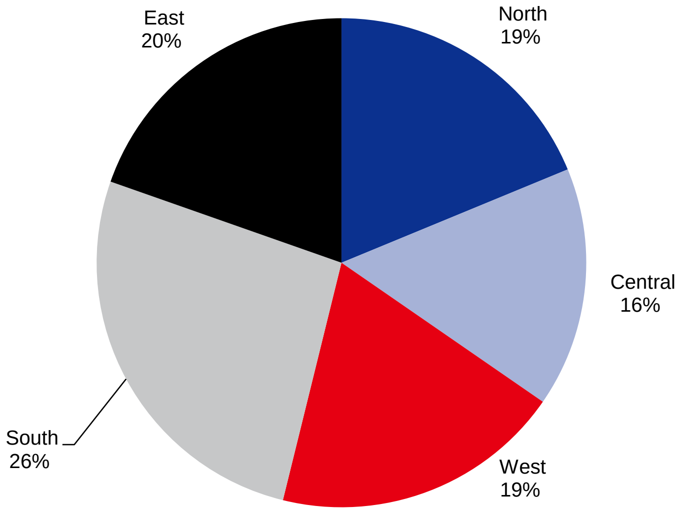
Regional outlook – South India looks better, but it doesn't matter

Regional outlook mattered when there were logistical issues in cement transportation. Getting railway rakes was difficult and bad road networks meant that transporting cement from one state to another was a logistical nightmare. Multiple taxation – like central sales tax (CST), value added tax (VAT), Octroi (entry tax in many cities) – created an artificial boundary for cement transportation. After GST, these artificial barriers have been removed and better cement companies are able to reach far and wide to sell their products. South India exports the highest quantity of cement to other regions, hence prices in other regions equal the price in South India and freight cost between that region and South India.

Present cement capacity distribution across regions and last decade's demand pattern are not completely disjointed ➤

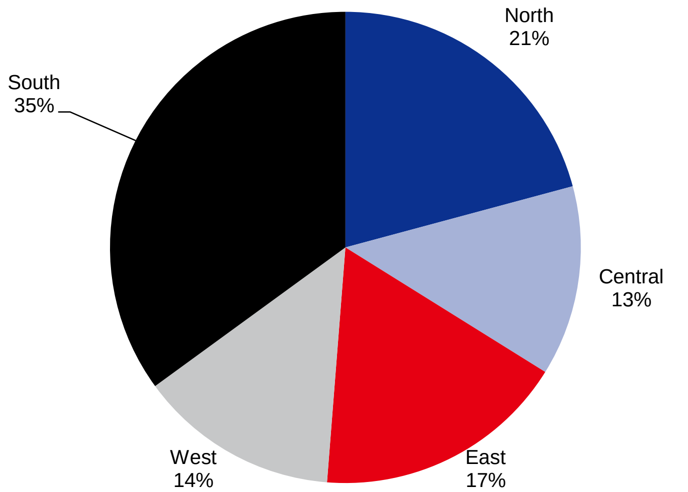
It is evident from the pie charts below that West India contributed 19% of cement demand in the past decade but has only 14% of the installed capacity, in our estimate. On the other hand, South India contributed 26% of cement demand but had 35% of the installed capacity, in our estimates. South India will continue to have high capacity as it is the only region where one still finds good quality limestone reserves. However, one cannot say that capacity addition by the Indian cement industry has been completely out of sync with the demand.

Figure 50: South India contributed 26% of India's overall demand for cement in the last 10 years



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 51: South India has 35% of India's installed capacity. West India appears to have the best capacity-demand differential matrix as at FY21



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Tax reforms in the last 4 years have improved logistics and reduced regional disparity ➤

Earlier multiple taxes like CST, VAT and Octroi created artificial barriers for cement transportation. After GST, these barriers were removed, and the better cement companies were able to widen their product reach.

After GST warehousing need vanishes

Cement manufacturers can heave a sigh of relief as the supply chain management of cement will get a boost under GST. Most companies maintain multiple warehouses across states to avoid CST and state entry taxes. These warehouses generally operate below their capacities, leading to operational inefficiencies. Like other sectors, cement companies will consolidate their warehouses and maintain warehouses where it is most beneficial (such as Nagpur-0-mile city) thus leading to operational economies, in our view.

There have been savings on transport costs

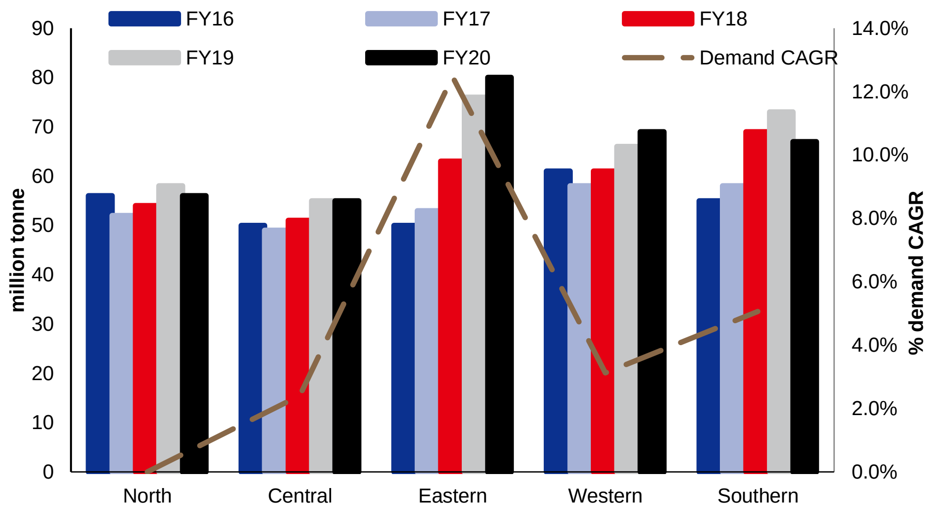
Most Indian cement manufacturers are located near limestone quarries. But demand for cement is pan-India which means the cost of transporting cement from the manufacturer to the buyer is pretty high. Now, with GST the logistics industry is also going to be overhauled. The transit time will decline as vehicles will spend lesser time at checkpoints. This will lead to lower transportation costs and, in turn, the cement industry will save transport costs.

Less complex taxes

Currently, there are multiple excise duties applicable to cement manufacturers. There are separate rates and specific duties applicable on different types of cements depending on whether they are supplied in bulk form or in packaged form, or whether they are for industrial or trade purposes, etc. These multiple rates will be done away with under GST. Only a fixed rate of 28% will apply on cement, resulting in fewer compliances and less complexity, in our view.

In demand growth terms East India has been doing well ➤

Figure 52: East India performed better than other regions and now its demand is better than other regions (demand CAGR is over FY16-FY20)

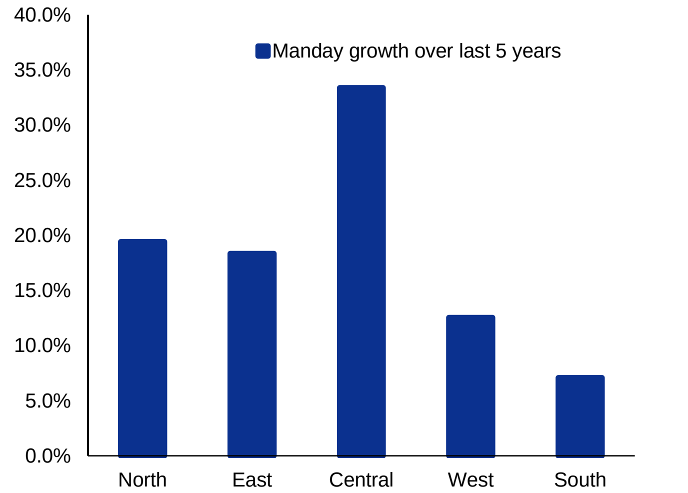


SOURCE: INCRED RESEARCH, MINISTRY OF COMMERCE AND INDUSTRIES

Investment in social infrastructure is the highest in East India, which again bodes well for future demand ➤

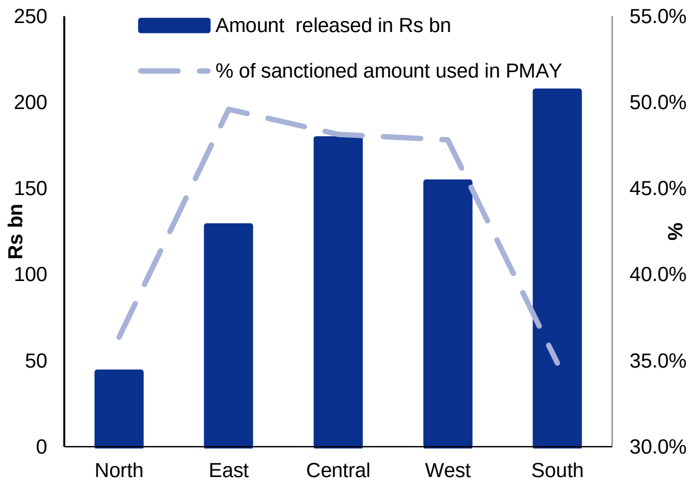
Social schemes like MNREGA, Ujjawala Yojna, toilet and housing schemes are increasing cement demand. In this region individual house building (IHB) has one of the fastest rates in India.

Figure 53: MGNERGA man day demand growth was the highest in Central and East India



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 54: East and Central India used PMAY funds at a much faster pace for FY21F

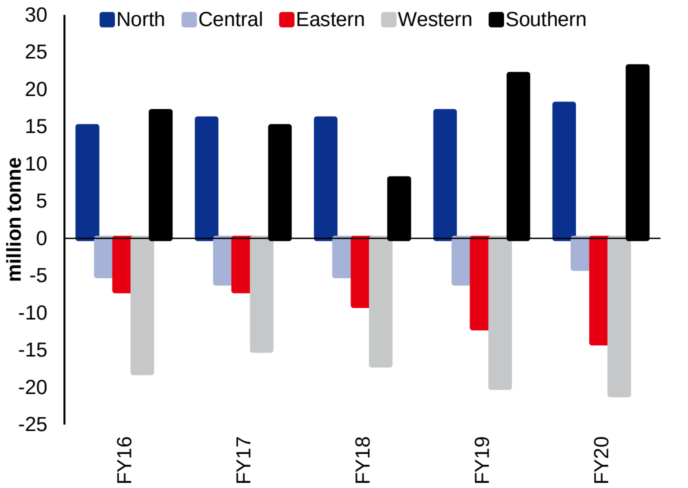


PMAY = PRADHAN MANTRI AWAS YOJANA
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Most of East India's cement capacity is in grinding, so cement/ clinker flows from other markets based on price economics ➤

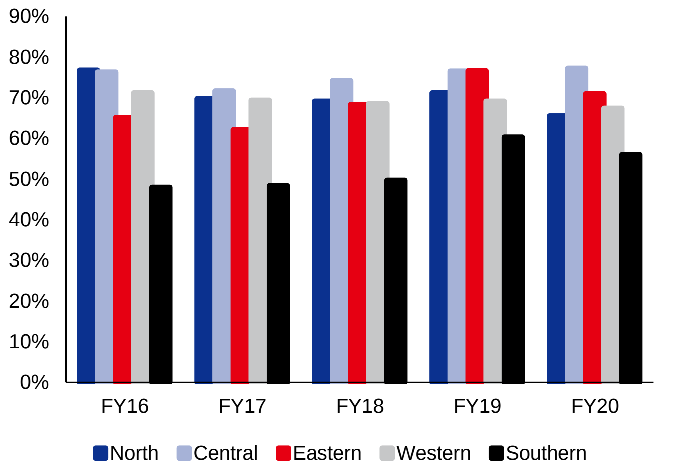
Apart from the Northeast, Eastern India does not have any significant limestone mines. Some of the limestone mines in the states of Uttar Pradesh and Bihar are of low grade (high silica) content and essentially useless. So almost all cement companies have installed grinding units (fly ash is abundant because of power plants). So, cement flows from the southern market to this area to fulfil demand.

Figure 55: North and South produce more cement than their demand and other regions absorb this cement



SOURCES: INCRED RESEARCH, COMPANY REPORTS

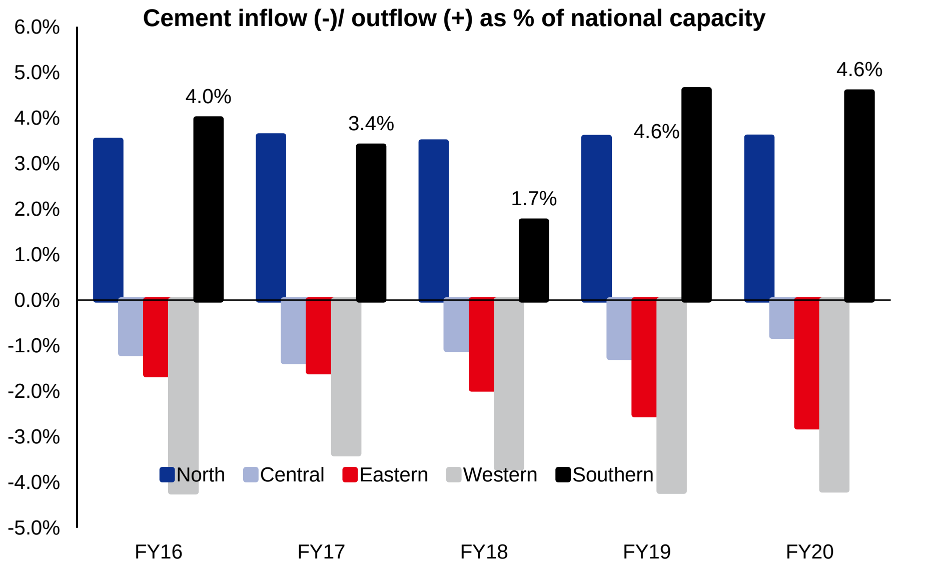
Figure 56: Capacity utilisation on year-end capacity is high – half of which is grinding, so effective utilisation is high



SOURCES: INCRED RESEARCH, COMPANY REPORTS

South India accounts for the highest cement production, so its prices will continue to set the national pricing trend ➤

Figure 57: South India sends the largest quantity of cement to other regions, hence prices in the country will be a function of prices in South India



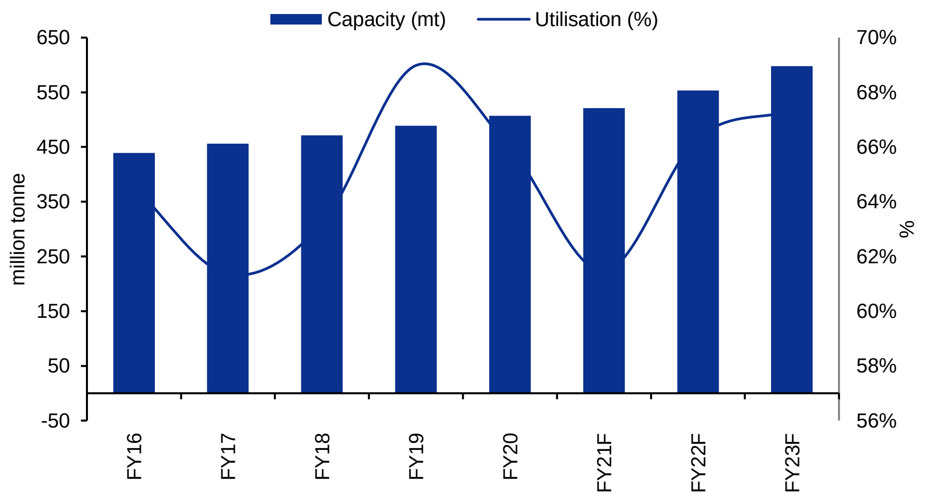
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Favourable demand-supply dynamics to support industry in medium to long term

Supply – expect gradual improvement in utilisation levels over the next two years ➤

- Based on announced plans of cement companies (after a brief pause in 1HFY21 when cement companies paused their capex plans), we expect Indian cement industry to add ~91mtpa over FY21F-FY23F.
- However, the supply picture post FY23F/24F could look much higher given recent announcements by various industry leaders. Over FY22F-23F, annual capacity growth would be ~6%, demand would rise from a low base at 9-10% pa, implying an increase in industry capacity utilisation to ~67% by end-FY23F (close to FY20 levels).

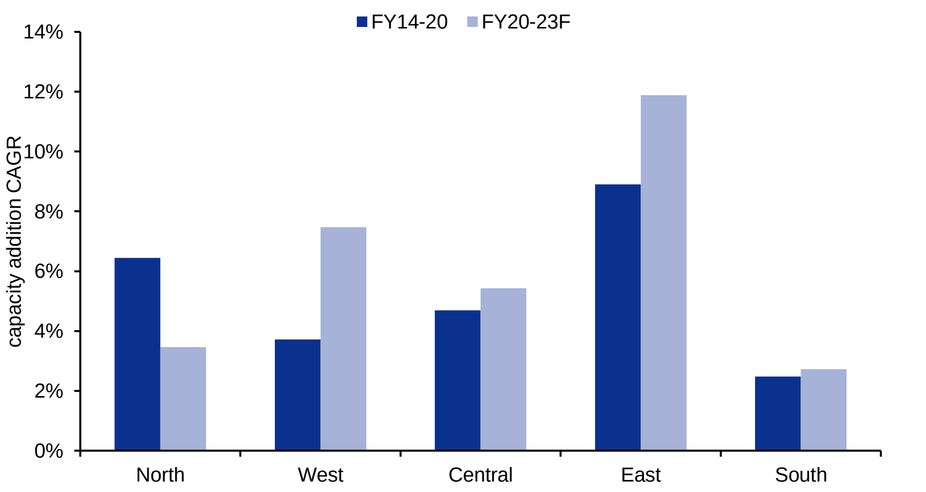
Figure 58: All-India cement capacity and utilisation trend



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORT

- Regionally, East India would see major capacity addition over FY21F-23F, while utilisation would remain stagnant, in our view. We expect pricing power in eastern India to be relatively weak though recent price hikes indicate increasing comfort in passing on input costs. We expect cement companies in other markets to do the same.

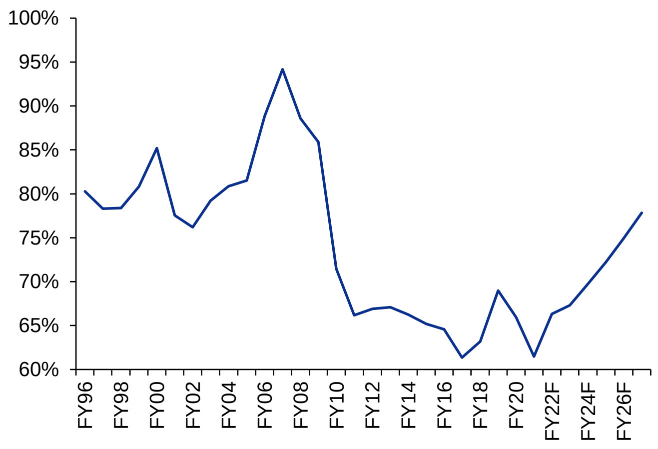
Figure 59: All-India cement capacity addition – East region to see major addition over FY21F-23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORT

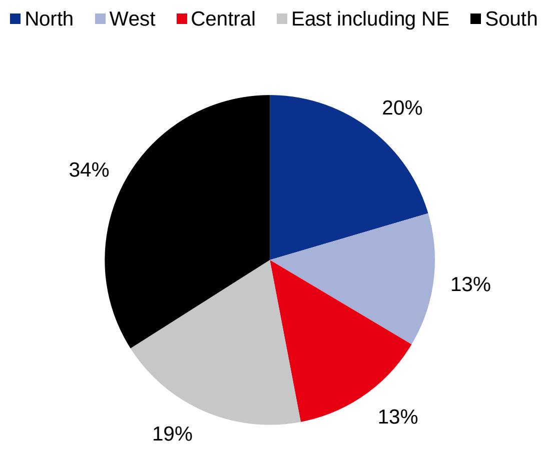
- Improving demand expectations and a tight market situation in select regions have triggered a wave of new capacity announcements. UltraTech and Shree Cement are looking at both brownfield/greenfield expansions, while select midcaps seem to be evaluating expansion in some markets. The supply side is looking up after relatively low supply in FY20/FY21F, but it does not appear to be a broad-based risk. Neither is it likely to disrupt pricing given most of the expansions are from large players, in our view.

Figure 60: Pan-India utilisation level to reach historical average in FY26F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORT

Figure 61: Current region-wise capacity share (%) in India



NE REFERS TO NORTHEAST INDIA
SOURCES: INCRED RESEARCH, COMPANY REPORT

Figure 62: We expect ~91mtpa of new capacity addition over FY21F-FY23F

Capacity addition (mtpa)	FY18	FY19	FY20	FY21F	FY22F	FY23F
North	5	0	3	2	2	7
West	0	4	1	1	12	4
Central	0	4	6	0	4	8
East	6	3	6	9	12	16
South	3	7	5	3	2	10
Total	**15**	**18**	**20**	**14**	**32**	**44**

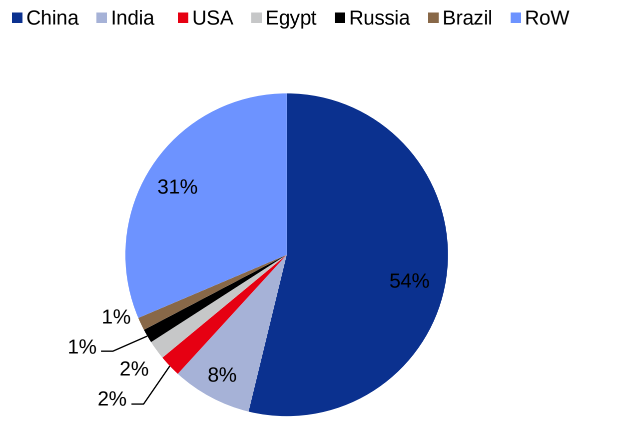
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORT

Demand – recovery quickens and to continue, driven by infrastructure and rural & semi-urban housing segments ➤

- Cement demand recovery accelerated over the last six months. We believe rural housing and infrastructure remain resilient, while urban housing, particularly in tier-2 and -3 cities, is recovering with lower interest rates and incentives from government/builders.
- Rural and semi-urban housing remain key drivers of cement demand, while industrial demand also picked up from Sep 2020 with the resumption of government projects and improving labour availability. We believe urban housing, especially in tier-2 and -3 cities, is showing signs of recovery. Demand recovery has been strong in East, Central and North India, but remains relatively weaker in the South and in Maharashtra, in our view.
- We expect cement demand recovery to continue on the back of good monsoons, government's continued thrust on rural and affordable housing, pent-up demand from urban India, and revival of infrastructure projects with improving labour availability. With faster demand recovery, we expect India's cement demand to decline by a modest 1-2% yoy in FY21F, followed by 13-14% yoy growth in FY22F and ~8% in FY23F on (i) sustained rural demand, (ii) faster recovery in urban demand, (iii) government spending on infrastructure – especially national expressways, and (iv) increased budgets for Pradhan Mantri Awas Yojana (PMAY) schemes.
- As demand growth is likely to be higher than supply growth in the foreseeable future, we expect a gradual improvement in utilisation level.

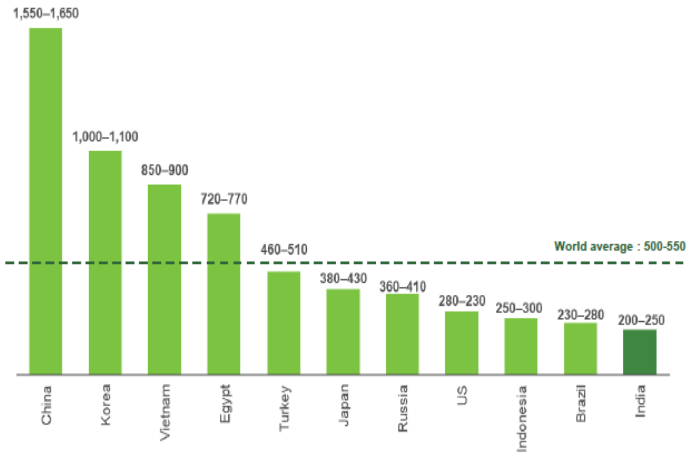
- We believe the demand cycle will be more constructive over the next three to four years given a benign base and a case for both the investment and housing cycle to kickstart. Recent corporate commentary has been more optimistic on the demand front than in the past.

Figure 63: India is the world's second largest cement producer as at FY21



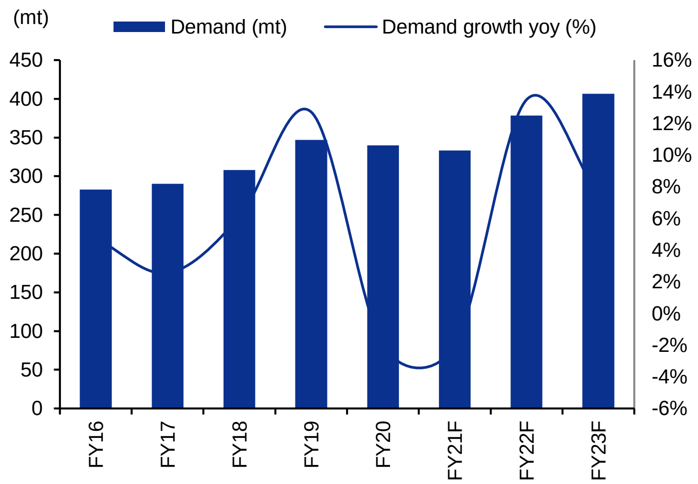
ROW = REST OF THE WORLD
SOURCES: UTCEM CORPORATE PRESENTATION, INCRED RESEARCH

Figure 64: India remains a highly underpenetrated market in per capita cement consumption per kg terms as at FY21



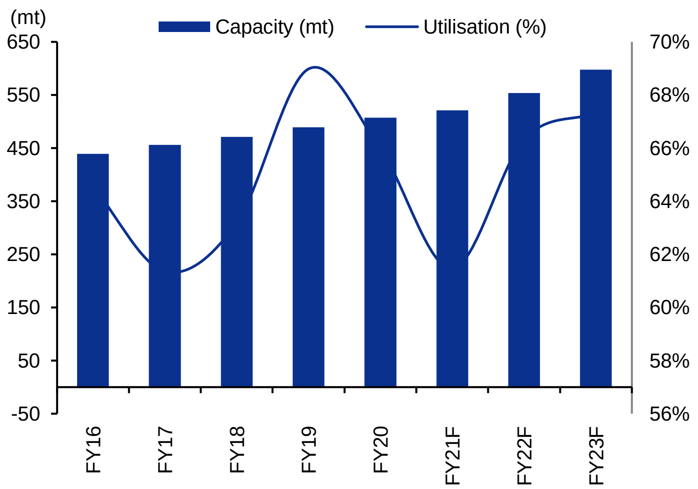
SOURCES: UTCEM CORPORATE PRESENTATION, INCRED RESEARCH

Figure 65: Indian cement demand to strengthen in CY22F and FY23F as several drivers start contributing hereon



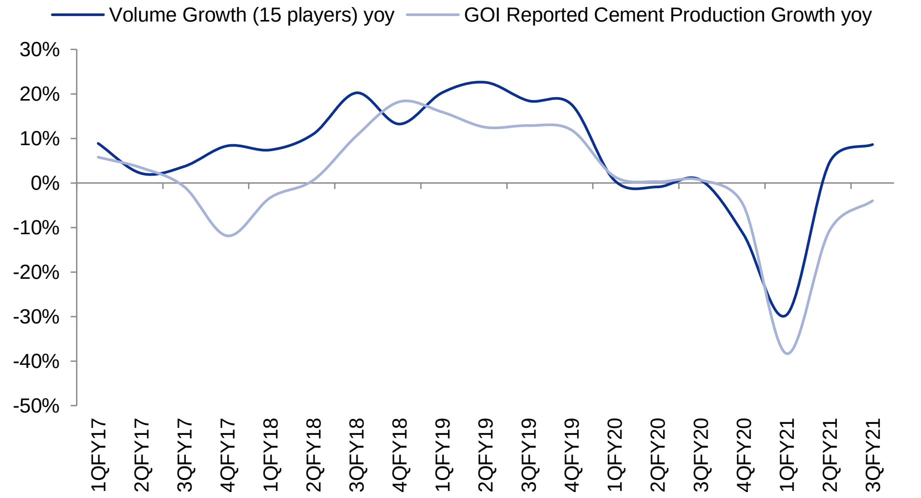
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 66: After declining in FY20 and FY21F, we expect cement industry utilisation levels to rise to ~67-68% in FY23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 67: Demand recovery has been much better vs street expectation in recent quarters and GOI reported cement production growth

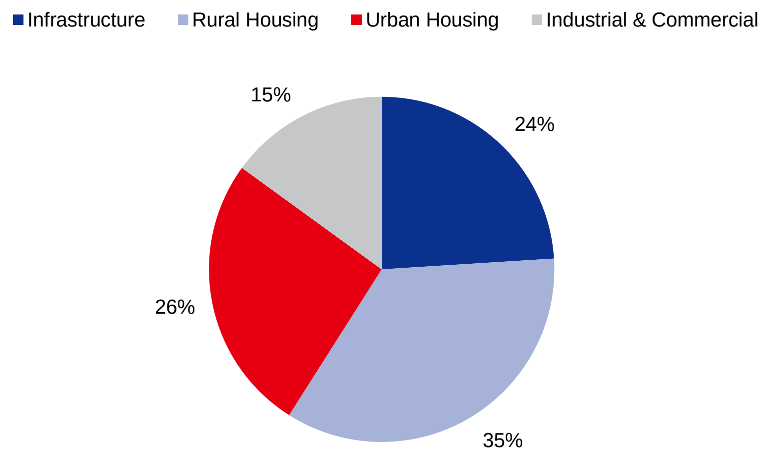


SOURCES: INCRED RESEARCH, GOI – GOVERNMENT OF INDIA, AS PER THE DEPARTMENT OF INDUSTRIAL POLICY AND PROMOTION (DIPP) DATA

Key demand drivers now are rural housing and infra

- After the first wave of COVID-19-led demand disruption in 1HFY21, where cement demand declined 25% yoy, we believe FY21F could witness a decline of only 1-2% volume due to the recovery in infrastructure spending, continued momentum in individual housing and a mild recovery in urban real estate.
- India's cement industry is the second largest in terms of cement production in the world and we believe the country has a lot of potential for development in the infrastructure and construction sectors.
- The central, northern and eastern regions would drive demand, followed by those in western and southern India. Overall, we believe industry demand decline would be limited to 1-2% in FY21F, much lower than what was previously expected by the street.

Figure 68: Cement consumption breakdown of the industry (%) – IHB and infrastructure to remain key growth drivers for cement industry as at FY21



IHB = INDIVIDUAL HOME BUILDERS
SOURCES: INCRED RESEARCH, ACC 4QCY20 RESULT PRESENTATION

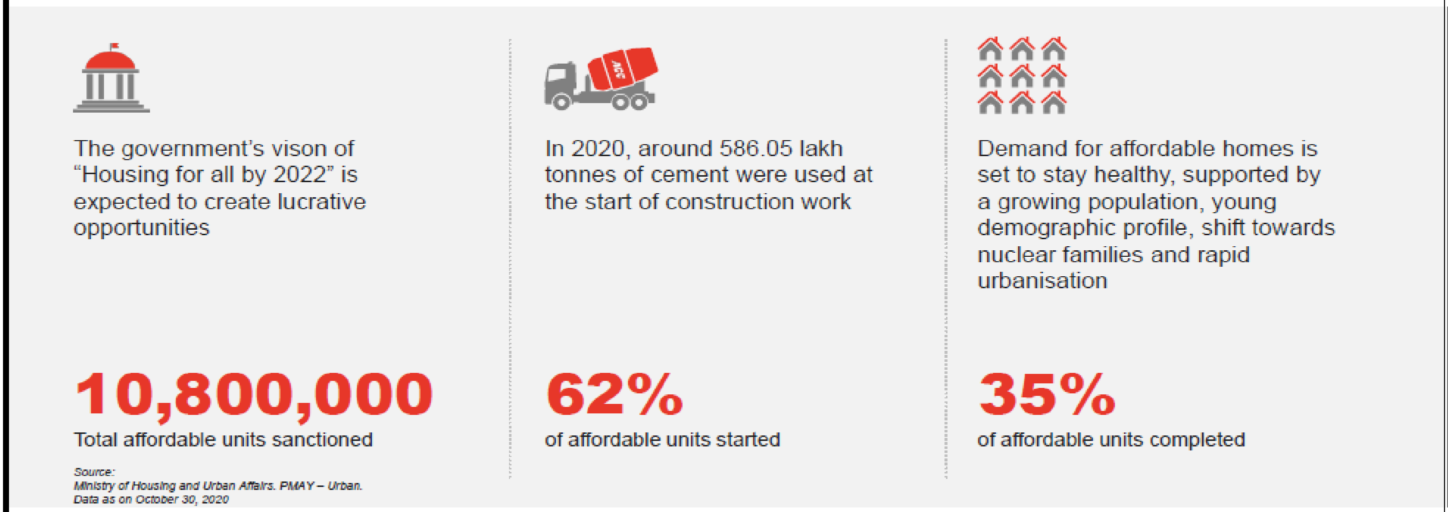
Figure 69: East and Central have highest potential to outperform all other regions

Macro-economic potential	North	Central	East*	West	South	India
Rural population (FY20)	67%	75%	77%	53%	54%	67%
Per capita consumption (kg) – FY20	231	173	203	273	263	227
Housing shortage (FY20) (m)	10	8	9	7	12	50
Road density (kms/ per lakh people)	294	244	307	469	401	358
Power density (kwh/Capita)	1233	700	820	1758	1461	1181

* EXCLUDING NORTH-EAST
SOURCES: INCRED RESEARCH, UTCEM BUSINESS UPDATE PRESENTATION

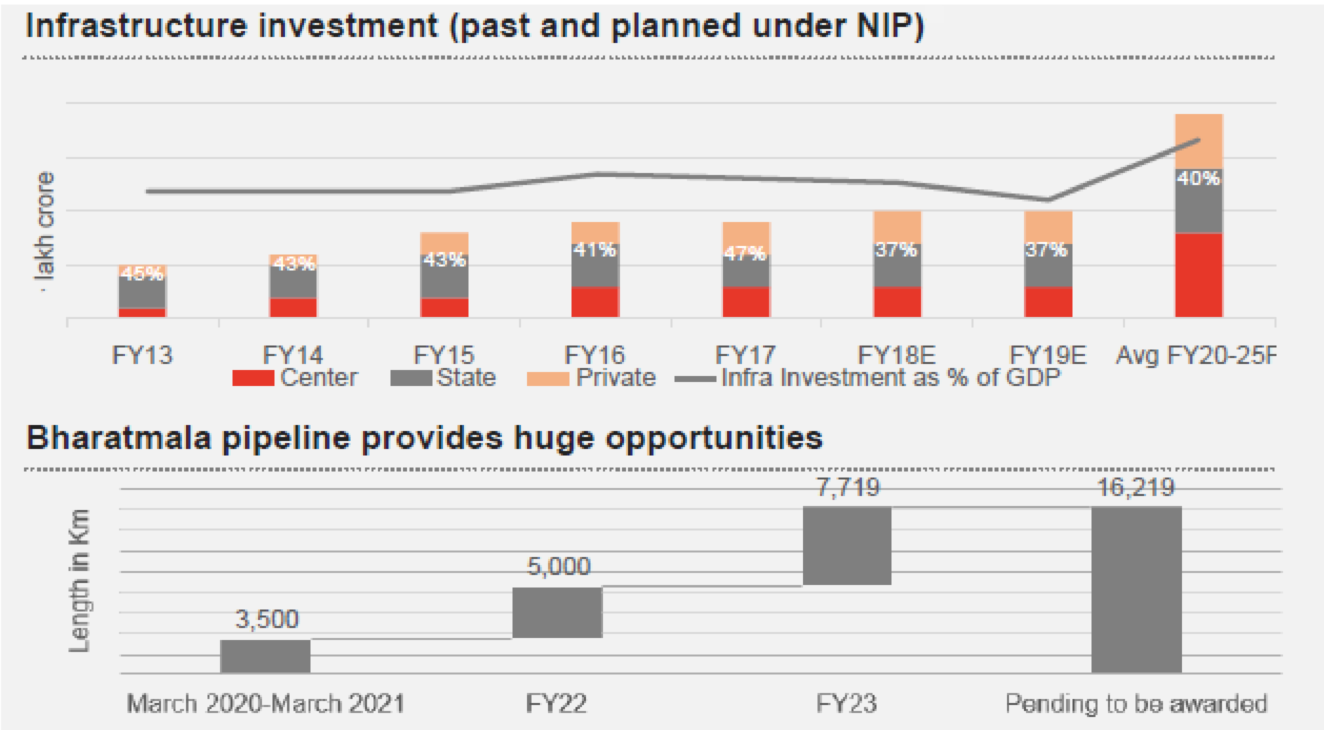
- Some recent initiatives, like the government's flagship project for the development of smart cities, would be a major boost for the sector. Another important factor that could contribute to the sector's growth are favourable government policies towards the infrastructure and housing sectors. All the factors combined, the cement industry's outlook remains positive.

Figure 70: Affordable housing segment to be key driver for the cement Industry



SOURCES: INCRED RESEARCH, ACC 4QCY20 RESULT PRESENTATION

Figure 71: Infrastructure recovery to support demand for the cement industry



SOURCES: INCRED RESEARCH, ACC 4QCY20 RESULT PRESENTATION

Industry experts say demand momentum may pause in medium term

- With the Indian government emphasising infrastructure development and housing for all in the Union Budget 2021-22, we believe the cement industry may see mid-teens growth in FY22F. India's Finance Minister has also proposed to take concrete steps to increase funding and create a structure for long-term funding for infrastructure projects under the National Infrastructure Pipeline (NIP) programme.
- But like last year, wherein industry witnessed a lot of uncertainties owing to the pandemic, this year we are witnessing a similar situation and the COVID-19 situation looks more challenging than last year. As per our channel checks, the cement industry has already started seeing a disruption in the supply chain, labour shortages and many of the projects getting delayed.
- Owing to the impact of the economic slowdown, growth in the housing segment which forms 60-65% of cement demand is likely to see a downward trend. A public health emergency and the subsequent economic slowdown will put Indian government finances under stress, limiting its ability to step up capital expenditure. This will in turn impact infrastructure growth. Any further worsening of the outbreak or announcement of a nationwide lockdown (like we saw last year) can hurt the liquidity of the cement players as well.
- Apart from the pandemic, other challenges are rising costs of major input materials like coal, pet coke, diesel, etc, and overall costs of cement manufacturers over the last few months. These have exerted pressure on the near-term profitability of industry players.
- We expect, as we witnessed last year (during the first wave of the pandemic), the industry to recover from the downturn quickly and start witnessing a robust demand scenario. We believe that as soon as we recover from the COVID-19 pandemic, industry should be able to see strong volumes again, aided by pent-up demand and a favourable base.

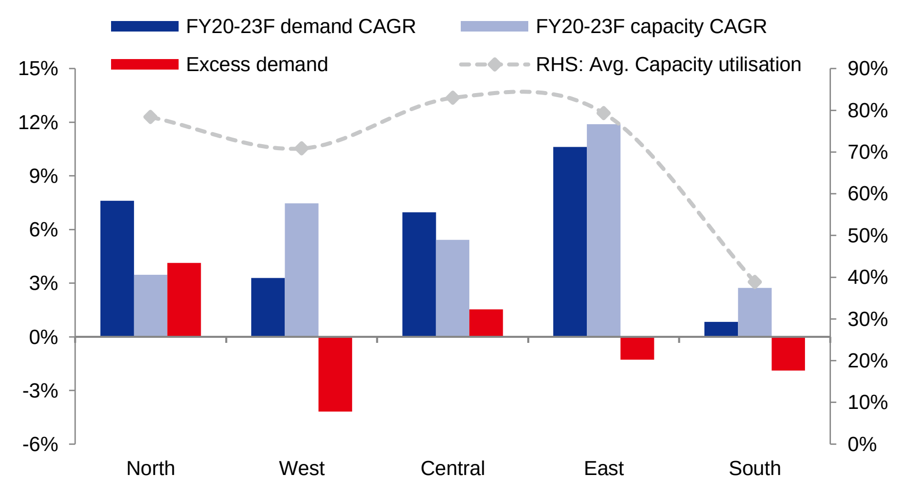
Demand/supply model

Figure 72: Demand and supply model over FY14-23F

Particulars (mt)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F
Total year-end capacity	386	416	439	456	471	489	509	524	556	600
Additions	19	30	23	17	15	18	20	14	32	44
Production	258	273	286	284	304	347	335	320	367	403
Utilisation	67%	66%	65%	62%	65%	71%	66%	61%	66%	67%
Consumption	256	270	283	290	308	347	340	333	378	407
Demand growth	3%	6%	5%	3%	6%	13%	-2%	-2%	14%	8%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 73: Region-wise demand-supply CAGR for cement over FY20-23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORT

Key data points and projections for coverage companies

Figure 74: We expect cement volumes of coverage companies to grow by ~11% over FY21F-23F

Volumes (mt)	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F	CAGR FY16-20	CAGR FY21F-23F
UTCEM*^	50	52	63	82	83	86	97	106	13.1%	10.6%
ACC*	23	27	28	29	26	28	30	32	2.4%	7.0%
ACEM	21	23	24	24	23	26	29	31	1.4%	10.0%
SRCM*	14	21	23	26	25	27	31	33	15.3%	11.4%
TRLC	7	8	9	11	11	10	12	14	11.7%	17.9%
JKCE*	7	7	8	9	8	10	12	13	5.3%	13.0%
BCORP*^	8	10	12	14	14	13	15	17	14.1%	11.5%
HEIM	4	4	5	5	5	5	5	6	1.4%	11.0%
Total	**136**	**152**	**173**	**200**	**194**	**205**	**230**	**252**	**9.3%**	**10.7%**

*CONSOLIDATED, ^ACTUAL FIGURES FOR FY21
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 75: We expect realisations of coverage companies to grow by ~1.6% over FY21F-23F

Realisation (Rs/t)	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F	CAGR FY16-20	CAGR FY21F-23F
UTCEM*^	4928	4782	4881	4775	5053	5122	5224	5339	0.6%	2.1%
ACC	4261	4452	4643	4973	5074	5114	5186	5108	4.5%	-0.1%
ACEM	4228	4455	4540	4719	4929	5048	5179	5272	3.9%	2.2%
SRCM*	3973	4332	4172	4545	5019	4919	5008	5123	6.0%	2.0%
TRLC	4872	4620	4637	4549	4792	5223	5145	5238	-0.4%	0.1%
JKCE	4098	4303	4057	3991	4527	4563	4677	4808	2.5%	2.6%
BCORP^	4212	4456	4372	4358	4826	4853	4926	5034	3.5%	1.8%
HEIM	3664	3772	3990	4298	4576	4668	4752	4842	5.7%	1.8%
Average	**4279**	**4397**	**4411**	**4526**	**4850**	**4939**	**5012**	**5096**	**3.2%**	**1.6%**

*BLENDED, ^ACTUAL FIGURES FOR FY21
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 76: We expect EBITDA/t of coverage companies to grow by ~1.6% over FY21F-23F

EBITDA (Rs/t)	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F	CAGR FY16-20	CAGR FY21F-23F
UTCEM*^	917	939	899	775	1040	1283	1251	1305	3.2%	0.9%
ACC	606	677	675	782	899	910	959	1017	10.4%	5.7%
ACEM	788	824	782	893	1167	1223	1298	1313	10.3%	3.6%
SRCM*	997	1149	967	1080	1508	1522	1483	1550	10.9%	0.9%
TRLC	1489	1431	1181	932	1015	1546	1431	1501	-9.1%	-1.5%
JKCE*	646	921	839	845	1242	1389	1381	1439	17.7%	1.8%
BCORP^	356	619	652	685	979	999	980	1013	28.8%	0.7%
HEIM	520	623	781	987	1122	1103	1123	1162	21.2%	2.6%
Average	**790**	**898**	**847**	**873**	**1122**	**1247**	**1238**	**1287**	**9.2%**	**1.6%**

*BLENDED, ^ACTUAL FIGURES FOR FY21
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 77: We expect costs/t of coverage companies to increase by ~2% over FY21F-23F

Costs (Rs/t)	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F	CAGR FY16-20	CAGR FY21F-23F
UTCEM^	4011	3843	3981	3999	4013	3839	3974	4034	0.0%	2.5%
ACC	4103	4295	4496	4087	4112	4223	4275	4447	0.1%	2.6%
ACEM	3493	3720	3915	3956	3849	3926	3990	4065	2.5%	1.8%
SRCM	2911	2943	3266	3774	3655	3523	3654	3727	5.9%	2.9%
TRLC	3475	3300	3556	3704	3777	3766	3789	3805	2.1%	0.5%
JKCE	4134	4179	4322	4481	4698	4421	4566	4643	3.2%	2.5%
BCORP^	3711	3695	3971	4047	4091	4069	4232	4283	2.5%	2.6%
HEIM	3190	3215	3280	3369	3490	3602	3676	3729	2.3%	1.7%
Average	**3628**	**3649**	**3848**	**3927**	**3960**	**3921**	**4020**	**4092**	**2.2%**	**2.2%**

*BLENDED, ^ACTUAL FIGURES FOR FY21
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 78: We expect total revenue of coverage companies to increase by ~13% over FY21F-23F

Revenue (Rs bn)	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F	CAGR FY16-20	CAGR FY21F-23F
UTCEM*^	252	254	314	416	424	447	509	570	14%	13%
ACC*	110	133	148	157	138	160	175	183	6%	7%
ACEM	92	105	114	117	114	132	153	167	5%	12%
SRCM*	55	84	95	126	129	136	158	176	24%	14%
TRLC	36	39	44	52	54	53	63	73	11%	18%
JKCE*	37	40	48	53	58	67	80	89	12%	15%
BCORP*^	33	43	57	65	69	68	76	88	21%	14%
HEIM	16	17	19	21	22	21	25	27	7%	13%
Total	**631**	**716**	**840**	**1006**	**1007**	**1084**	**1239**	**1374**	**12%**	**13%**

*CONSOLIDATED, ^ACTUAL FIGURES FOR FY21
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 79: We expect EBITDA of coverage companies to grow by ~12% over FY21F-23F

EBITDA (Rs bn)	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F	CAGR FY16-20	CAGR FY21F-23F
UTCEM*^	49	52	61	73	92	116	126	144	17%	11%
ACC*	15	19	20	24	24	28	31	34	12%	9%
ACEM	17	19	19	21	26	31	38	41	12%	14%
SRCM*	14	24	22	28	38	41	46	52	28%	12%
TRLC	11	12	11	10	11	15	17	21	1%	16%
JKCE*	5	7	8	8	12	16	18	21	24%	15%
BCORP*^	3	6	8	9	13	13	14	17	47%	12%
HEIM	2	3	4	5	5	5	6	7	23%	14%
Total	**116**	**142**	**153**	**180**	**222**	**266**	**296**	**335**	**18%**	**12%**

*CONSOLIDATED, ^ACTUAL FIGURES FOR FY21
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 80: We expect PAT of coverage companies to increase by ~17% over FY21F-23F

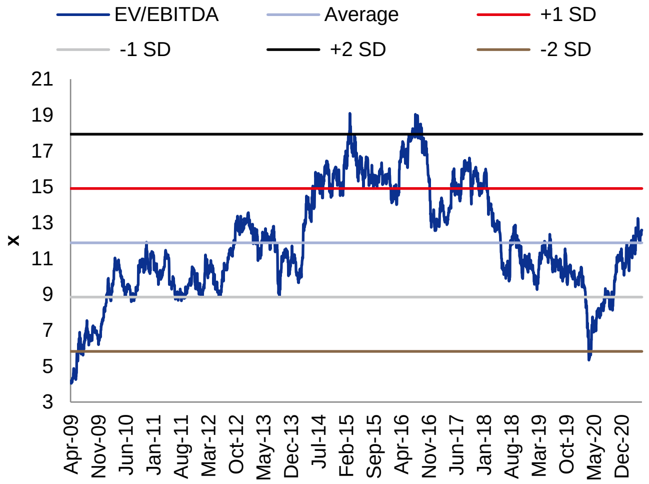
PAT (Rs bn)	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F	CAGR FY16-20	CAGR FY21F-23F
UTCEM*^	25	27	22	24	58	53	65	79	23%	22%
ACC*	7	9	15	14	14	17	19	21	21%	10%
ACEM	9	13	15	15	18	21	25	28	18%	14%
SRCM*	11	13	14	10	15	22	25	29	8%	15%
TRLC	5	6	6	5	6	8	9	11	3%	16%
JKCE*	1	2	3	3	5	8	10	11	73%	19%
BCORP*^	2	2	2	3	5	6	6	7	32%	8%
HEIM	0	1	1	2	3	3	3	4	66%	22%
Total	**60**	**74**	**77**	**76**	**124**	**139**	**162**	**190**	**20%**	**17%**

*CONSOLIDATED, ^ACTUAL FIGURES FOR FY21
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

We value cement companies on an EV/EBITDA basis ➤

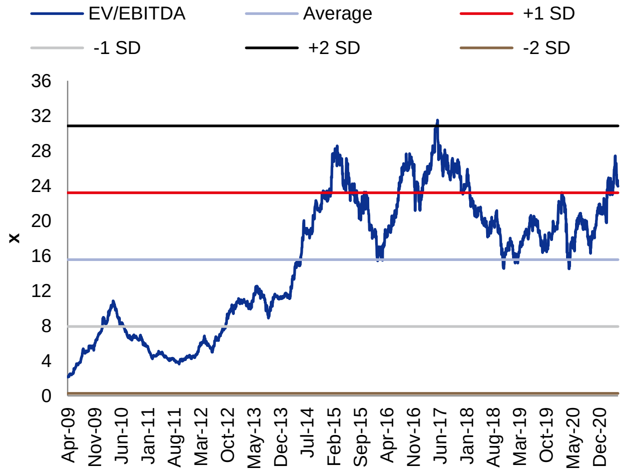
Being a commodity, cement is subject to rapid price movements. During the capacity expansion phase debt on the balance sheet increases. Rapid price movements dent the predictability of cash flows, making it difficult to value on the DCF. During the capacity ramp-up phase, depreciation and interest hit earnings, therefore EPS multiples do not give a clear picture of the true worth of a company. Hence, we value the cement companies under our coverage on an EV/EBITDA basis. The historical ranges of our companies are given below.

Figure 81: On average ACC has traded around 12x one-year forward EV/EBITDA



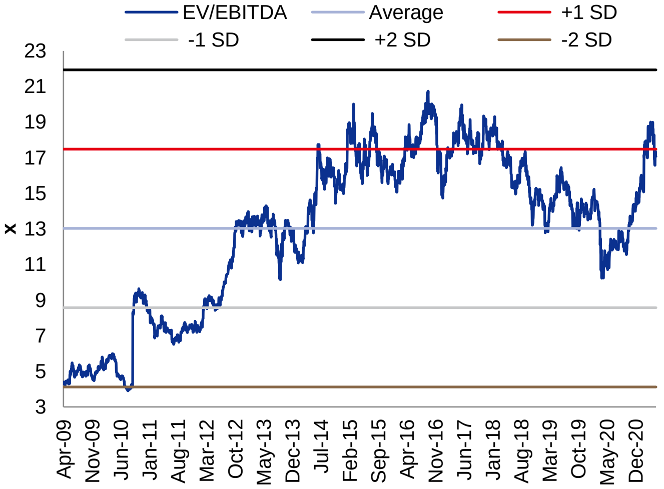
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 82: Shree Cement's trading range has been higher and on average been 15.5x EV/EBITDA (one-year forward)



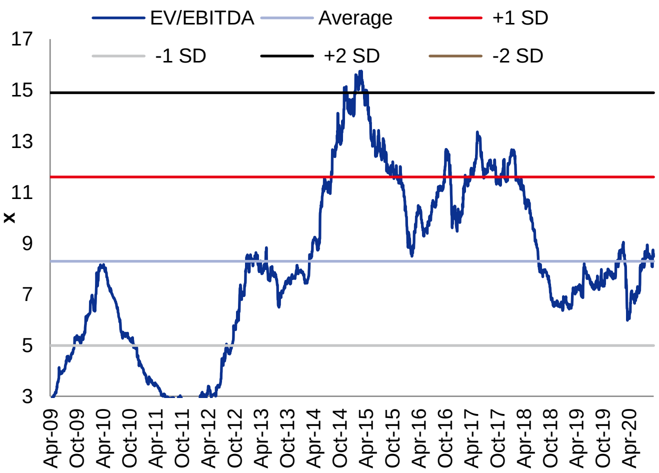
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 83: On average UltraTech Cement has traded at 13x one-year forward EV/EBITDA



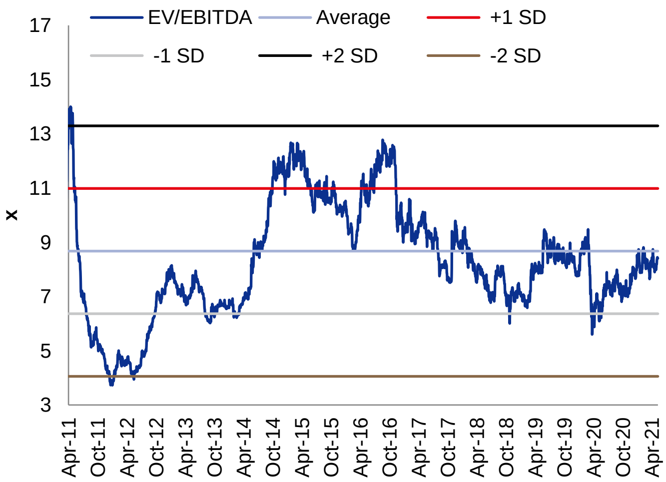
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 84: JL Cement has been trading at the last decade's average one-year forward EV/EBITDA



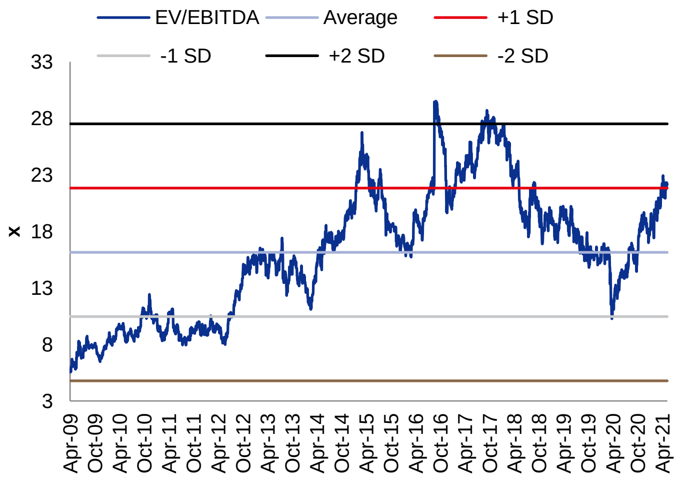
SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 85: Heidelberg Cement has been trading near its historical average one-year forward EV/EBITDA



SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 86: On average Ambuja Cements has traded at 16x its one-year forward EV/EBITDA



SOURCES: INCRED RESEARCH, BLOOMBERG

We have a Neutral rating on cement sector

While five of our coverage companies have Add ratings, the weighted average upside on our coverage (weighted on the basis of market cap) is only 10% hence we rate the sector Neutral.

Risks

Upside risks

1. We have assumed that the cement price rise will be in sync with the increase in cost. However, if the price rise is higher than the cost increase then our EBITDA estimates have upside risk.
2. Increased government push on infrastructure can lead to demand upsurges in the cement sector, which could lead to demand growth in the double digits (10% and higher). However, we have estimated 7-8% demand growth for the analyses of companies in our universe. Higher demand growth means higher sales volumes, better pricing, and better operational leverage and hence higher EBITDA than our estimates.

Downside risks

1. Rapid rise in costs because of higher diesel and coal prices are negative for our EBITDA estimates and, hence, price targets.
2. Rapid rise in COVID cases or a fresh wave of COVID in India could lead to the stalling of construction projects, which is negative for cement demand growth and hence our sales volume estimates for cement companies. Lower-than-estimated volume sales will lead to lower-than-estimated EBITDA for companies in our coverage universe.

Peer comparision

Figure 87: Sector peer comparison

Company	Bloomberg Ticker	Closing Price (LC)	Target Price (LC)	% Upside	Rating	Market cap (US$ m)	EV/EBITDA (x)		P/BV (x)		RoE (%)		P/E (x)		EV/T (US$)	
							FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
UltraTech Cement	UTCEM IN	6,653	7,592	14%	ADD	26,623	15.5	13.2	3.9	3.5	14.0	15.2	29.4	24.4	239.3	197.9
ACC	ACC IN	1,940	2,074	7%	HOLD	5,059	9.6	8.3	2.4	2.1	13.1	12.9	18.9	17.4	117.9	97.9
Ambuja Cements	ACEM IN	316	353	12%	ADD	8,793	15.4	14.0	2.7	2.5	11.3	11.3	24.6	22.8	254.0	249.7
Shree Cement	SRCM IN	27,475	25,799	-6%	REDUCE	13,879	21.3	18.6	5.9	5.1	15.8	16.2	39.5	33.8	285.8	266.5
Ramco	TRCL IN	965	1132	17%	ADD	3,186	14.6	11.6	3.6	3.1	14.3	15.6	26.8	21.6	169.3	161.2
JK Cement	JKCE IN	2,808	2918	4%	HOLD	3,036	13.3	11.7	4.9	4.0	23.6	23.2	22.7	19.0	205.5	206.5
Birla Corp	BCORP IN	1,202	1357	13%	ADD	1,328	9.0	7.3	1.5	1.4	10.3	11.7	15.5	12.4	91.9	82.4
Heidelberg	HEIM IN	240	268	12%	ADD	754	8.5	7.2	3.3	2.9	20.8	21.5	16.7	14.2	108.3	103.5
Mean							13.4	11.5	3.5	3.1	15.4	16.0	24.3	20.7	184.0	170.7
Median							13.9	11.6	3.4	3.0	14.2	15.4	23.7	20.3	187.4	179.5
Minimum							8.5	7.2	1.5	1.4	10.3	11.3	15.5	12.4	91.9	82.4
Maximum							21.3	18.6	5.9	5.1	23.6	23.2	39.5	33.8	285.8	266.5

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG. PRICED AS AT 18 MAY 2021

Company Note

Cement | India | May 20, 2021

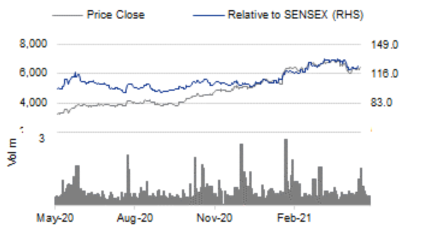
INITIATION

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 38 Hold 4 Sell 2
Current price:	Rs6,653
Target price:	Rs7,592
Previous target:	NA
Up/downside:	14.1%
InCred Research / Consensus:	4.0%
Reuters:	ULTC.NS
Bloomberg:	UTCEM IN
Market cap:	US$26,292m
	Rs19,20,411m
Average daily turnover:	US$60.2m
	Rs4398.7m
Current shares o/s:	288.6m
Free float:	38.9%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.9)	5.2	101.1
Relative (%)	(5.4)	6.6	21.0

Major shareholders	% held
Promoter & Promoter Group	60.0
Life Insurance Corporation of India	4.4
SBI Dual Advantage Fund	1.3

UltraTech Cement Ltd

Better play among large caps

- UTCEM is India's largest cement company by capacity. Post expansion, capacity would rise to ~131mtpa by FY23F from 113.4mtpa in FY21.
- Upcoming expansions, strong demand recovery and acceleration in acquired assets should support volumes over FY21-23F, in our view.
- We forecast consolidation volume/ realisation /EBITDA/t CAGR of 11%/2%/1% over FY21-FY23F. We initiate coverage with an Add rating and Rs7,592 TP.

Demand recovery and continued expansion to favour UTCEM

Demand recovery has been robust in recent quarters (~7% average volume growth during 2Q-3QFY21 based on 15 players volume reported) on the back of revival in rural demand and pick up in government-led infrastructure and affordable housing projects. UTCEM's consolidated volume grew by ~4% in FY21 vs our assumption of modest 1-2% decline for the cement industry. With the ramp-up of acquired capacities and newer capacities commissioning over FY21-23F, we expect UTCEM's cement volume to continue to grow ahead of the industry. The company plans to add ~20mtpa of capacity by FY23F in the high growth markets of India's East, Central and North, ensuring faster ramp-up and higher volume growth. We expect consolidated volume CAGR of 10.6% over FY21-23F.

Sustainable pricing & positive operating leverage to buoy EBITDA/t

According to our channel checks, cement prices remained firm so far in Mar-Apr 2021 despite strong demand, but medium-term profitability may fade due to the recent surge in commodity prices (pet coke, coal, diesel and PP). We believe UTCEM has achieved its fixed-cost savings target of ~10% (saved Rs5bn during FY21) and set up waste heat recovery systems (WHRS) and solar power by FY24F. We expect consolidated blended EBITDA/t to rise to Rs1,305 by FY23F from Rs1,040 in FY20.

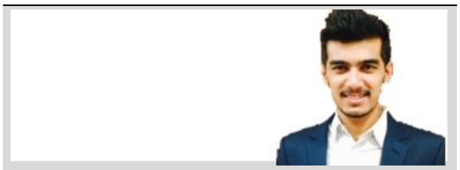
Dream combination of expansion and deleveraging

We believe the deleveraging story remains intact despite aggressive growth capex. UTCEM trimmed its net debt profile from the peak of Rs228bn in FY19 to Rs67.1bn at the end of Mar 2021 through asset sweating, better utilisation levels and improved profitability of acquired assets. We expect UTCEM to become debt free by 2HFY22F.

Leadership warrants premium valuations, initiate with Add rating

The stock trades at FY22F/FY23F EV/EBITDA of 15.2x/12.9x, respectively. We initiate coverage on the company with an Add rating and target price of Rs7,592 set at 15x FY23F EV/EBITDA. The ascribed multiple is in line with its five-year average EV/EBITDA, and we believe further deleveraging will result in rerating of multiples and given the size of the company, it should trade at a premium to most peers. Above-industry volume growth, cost control, deleveraging and improvement in ROE and ROCE are the key reasons for the stock's Add rating. Downside risks are weaker demand, pricing pressure, rise in input costs and delay in expansion.

Analyst(s)



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Financial Summary	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Revenue (Rsm)	4,16,088	4,24,299	4,47,258	5,09,423	5,70,051
Operating EBITDA (Rsm)	73,469	92,472	1,15,679	1,25,809	1,43,621
Net Profit (Rsm)	24,035	57,553	53,202	65,276	78,597
Core EPS (Rs)	90.4	204.4	190.4	226.2	272.3
Core EPS Growth	1.1%	126.1%	(6.8%)	18.8%	20.4%
FD Core P/E (x)	76.02	32.56	36.09	29.42	24.43
DPS (Rs)	11.5	13.0	37.0	54.7	65.9
Dividend Yield	0.19%	0.20%	0.20%	0.82%	0.99%
EV/EBITDA (x)	29.28	22.74	17.26	15.50	13.20
P/FCFE (x)	75.44	94.42	52.45	58.58	48.05
Net Gearing	68.4%	46.7%	17.2%	6.1%	(4.4%)
P/BV (x)	5.41	4.92	4.35	3.94	3.53
ROE	8.3%	15.8%	13.2%	14.0%	15.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)				1.02	1.02

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 18 MAY 2021

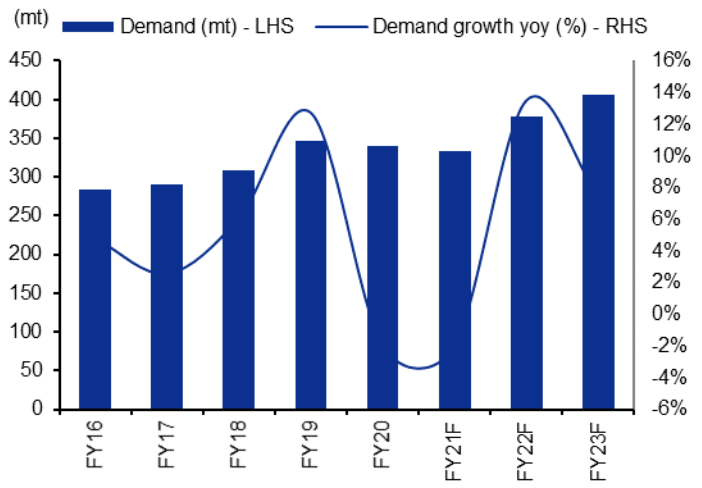
Better play among large caps

Volumes to grow ahead of the industry

Demand recovery quickens and to continue

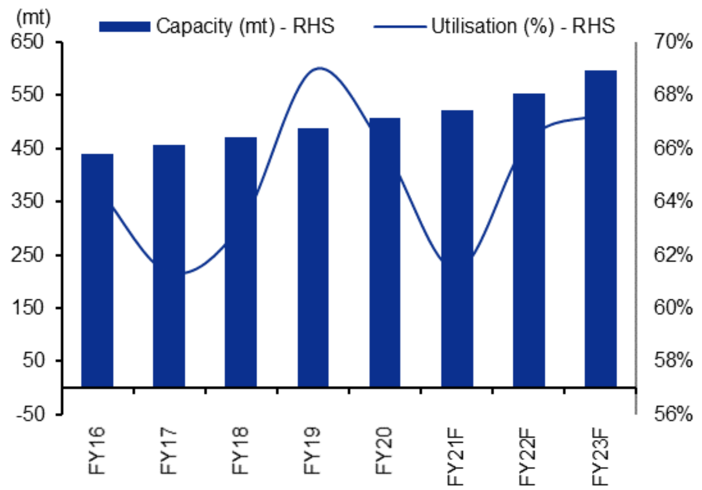
- Cement demand recovery accelerated over the last six months. Rural housing and infrastructure remain resilient, while urban housing, particularly in tier-2 and -3 cities, is recovering with lower interest rates and incentives from government/builders. UTCEM's 2Q-3QFY21 average capacity utilisation stood at 67%/80%, respectively, with utilisation in 4QFY21 increasing further to 93%.
- Rural and semi-urban housing remain key drivers of cement demand, while industrial demand also picked up from Sep 2020 with the resumption of government projects and improving labour availability. Urban housing, especially in tier-2 and -3 cities, is showing signs of recovery. Demand recovery has been strong in East, Central and North India, but remains relatively weaker in the South and Maharashtra.
- We expect cement demand recovery to continue in 2022 on the back of good monsoons, government's continued thrust on rural and affordable housing, pent-up demand from urban India, revival of infrastructure projects with improving labour availability. With faster demand recovery, we expect India's cement demand to decline by a modest 1-2% yoy in FY21F followed by 12-13% yoy growth in FY22F and 8-9% in FY23F.

Figure 88: Indian cement demand to gain strength in CY22F and FY23F as several drivers to start contributing from hereon



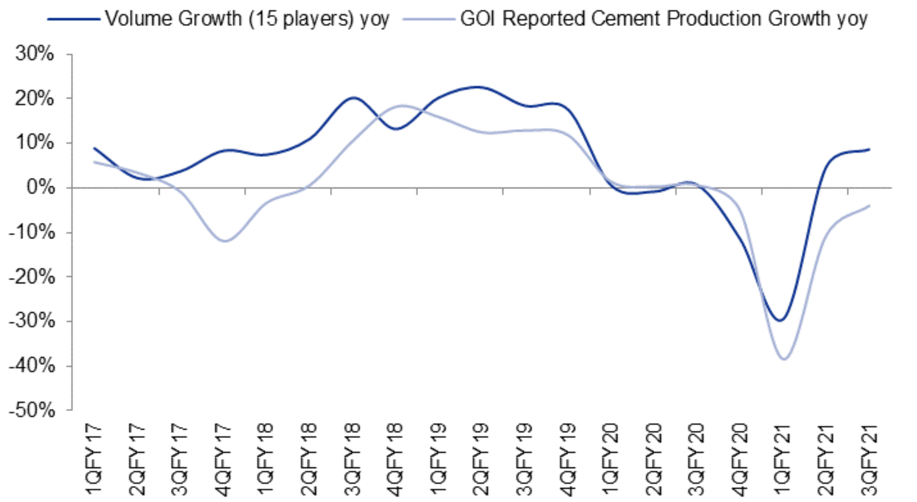
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 89: After declining in FY20 and FY21F, we expect cement industry utilisation levels to increase to ~68% in FY23F



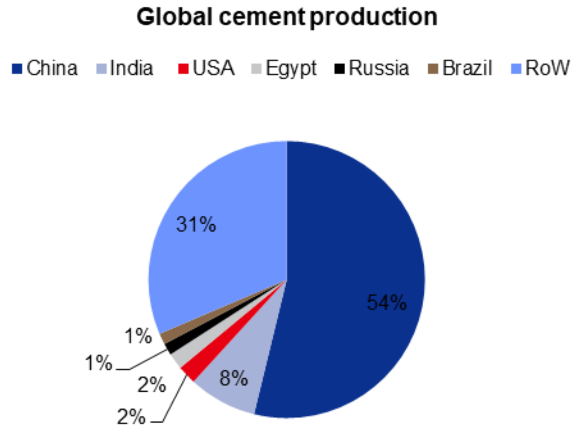
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 90: Demand recovery has been much better vs street expectation in recent quarters and GOI reported cement production growth



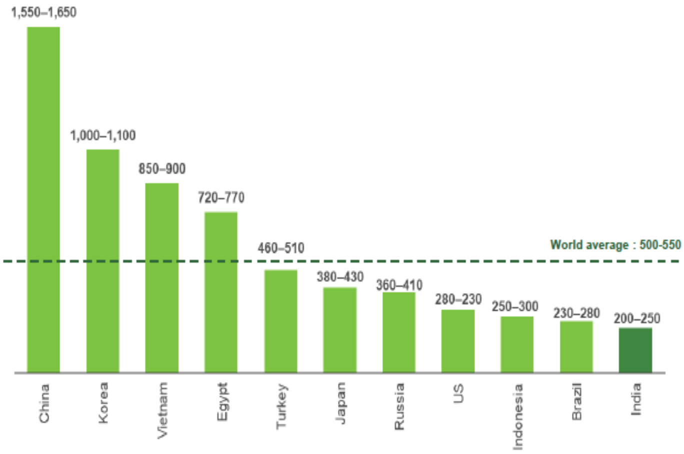
SOURCES: INCRED RESEARCH, GOI – GOVERNMENT OF INDIA, AS PER THE DEPARTMENT OF INDUSTRIAL POLICY AND PROMOTION (DIPP) DATA

Figure 91: India was the world's second largest producer of cement (FY20)



SOURCES: UTCEM CORPORATE PRESENTATION, INCRED RESEARCH

Figure 92: But currently India is a highly underpenetrated market in per capita cement consumption per kg terms

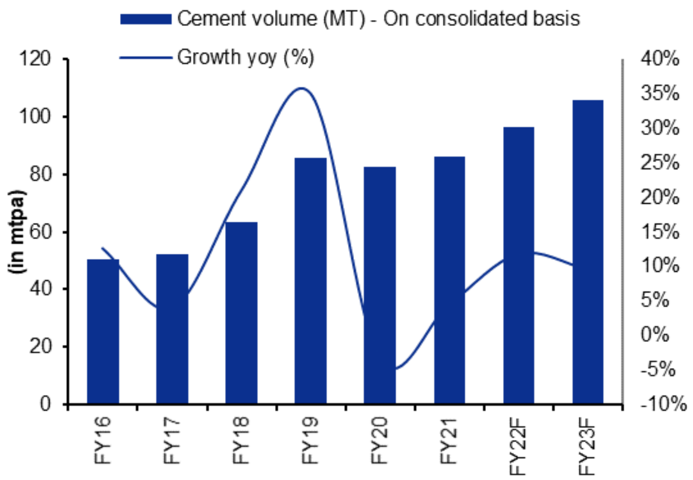


SOURCES: UTCEM CORPORATE PRESENTATION, INCRED RESEARCH

Capacity addition to enhance market share

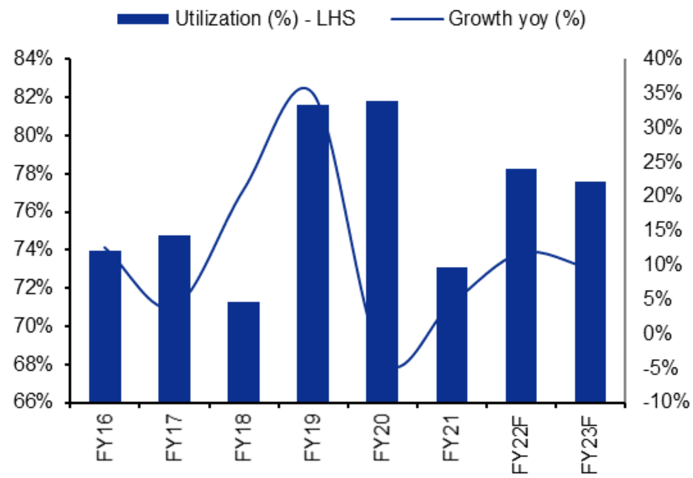
- Driven by large inorganic and organic capacity expansions, UTCEM's volume growth has been higher than the cement industry's growth. Over FY12-20, UTCEM's cement volume grew at ~8% CAGR compared to ~5% growth for industry. With the ramp-up of acquired capacities and newer capacities commissioning over FY21-23F, we expect UTCEM's cement volume to continue to grow ahead of the industry. Despite the impact of COVID-19 on 1QFY21 demand, UTCEM reported 4% yoy volume growth in FY21, and we expect 12%/9% yoy volume growth in FY22F/FY23F, respectively.

Figure 93: UTCEM volumes to grow ahead of the industry led by upcoming expansions



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 94: Higher utilisation of acquired assets; continued market share gains to drive ~11% volume CAGR over FY21-FY23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

- Overall, UTCEM plans to add 11.4mtpa clinker and 19.5mtpa cement capacities (including 6.7mnte of ongoing expansion in Uttar Pradesh, Odisha, Bihar, and West Bengal, expected by management to be completed by FY22) at a capex of Rs65.27bn by FY23F (of which ~Rs10.5bn is for ongoing expansion and ~Rs54.77bn for proposed expansion). Land cost has already been factored into the expansion for ~70% of the overall capacity expansion. Hence, we expect its total domestic capacity to increase to 131mtpa by FY23F, which will expand its capacity share.
- The new capacity expansion will be more concentrated in the East and Central regions, backed by robust demand outlook and the company's inability to service these markets in the peak season due to capacity constraints.
- UTCEM plans to add 10.1mtpa in East India, raising total capacity post expansion to 26.2mtpa. It plans to do the same in the Central region, raising capacity by 5.1mtpa to 28.4mtpa post expansion, by 2.5mtpa in North India to 26.3mtpa, and by 1.8mtpa in West India to 29.5mtpa. UTCEM does not plan to add capacity in the South and capacity will remain constant at 20.5mtpa. Of the total ~19.5mtpa capacity expansion by FY23F, 72% would be through brownfield expansion and the rest greenfield.
- The company also announced ~11.4mtpa of additional clinker capacity expansion, of which ~2.7mtpa is in North, Central and East, ~1mtpa in Maihar, Madhya Pradesh, and 2.3mtpa in Central Dalla Super, Uttar Pradesh, which should get commissioned by the next financial year. Clinker generated at Pali Rajasthan will be used to feed other grinding units in the North. Dalla Super clinker will start production from FY22F.
- The average announced capex (expansion) cost will be at below US$60/t due to higher brownfield expansion and the company will generate RoCE of 15% on planned expansion. We believe the average capex outflow would be Rs25bn p.a., including maintenance and other investments towards cost efficiency programmes (like WHRS). Post completion of the current expansion plan, UTCEM's total capacity will increase to 130.9mtpa (~111.4mtpa for

FY20). The company aims to have cement capacity of ~160mtpa by FY30, with plans to increase capacity by a further 29-30mtpa by FY30 for which UTCEM already has the land and limestone mines.

Figure 95: Ongoing expansion to be completed by FY22F

Ongoing expansion	Capacity (mtpa)
Cuttack	2.2
Dankuni	0.6
Patliputra	0.6
Bara	2.0
Dalla	1.3
Total	**6.7**

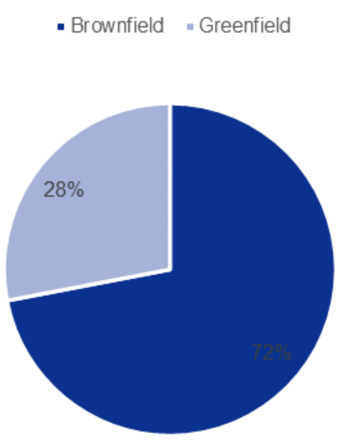
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 96: Proposed expansion would increase capacity to 131mt by FY23

Proposed expansion	State	Cement (mtpa)	Grinding capacity (mtpa)	Clinker (mtpa)	Expected to commission
Hirmi	Chhattisgarh	4.5	Cuttack: 2.2, Durgapur: 0.6, Sonar Bangla: 0.6, Jharsuguda: 0.6, Hirmi:0.6	2.7	4QFY23
Dhar	MP	4.2	Dhar: 1.8, Dhule: 1.8 & Neem ka Thana: 0.6	2.7	4QFY23
Pali	Rajasthan	1.9	Pali	2.7	3QFY23
Patliputra	Bihar	2.2	Patliputra	1	3QFY23
Total		**12.8**			

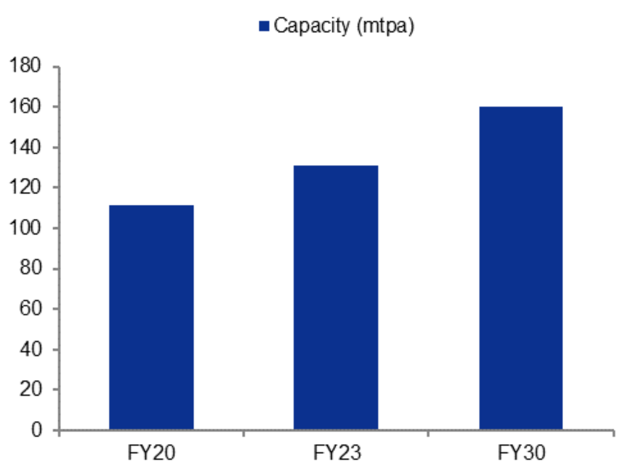
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 97: Bulk of additional capacity (expansion) to be brownfield in nature as at FY23



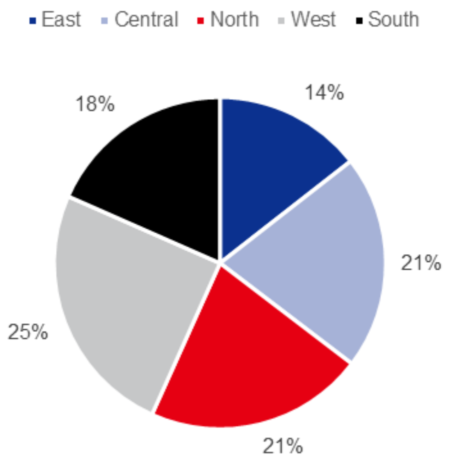
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 98: UTCEM expects to reach 131mtpa by FY23 and 160mtpa by FY30



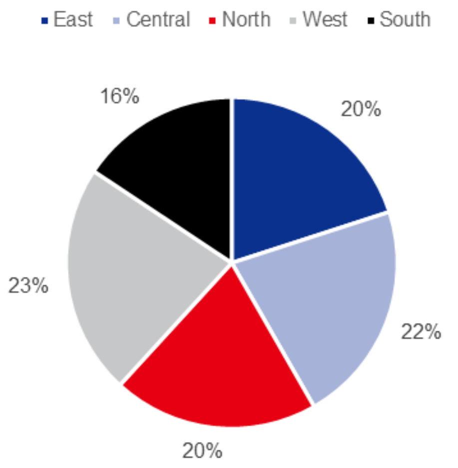
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 99: Capacity share across regions before expansion announcement in East and Central India as at FY21



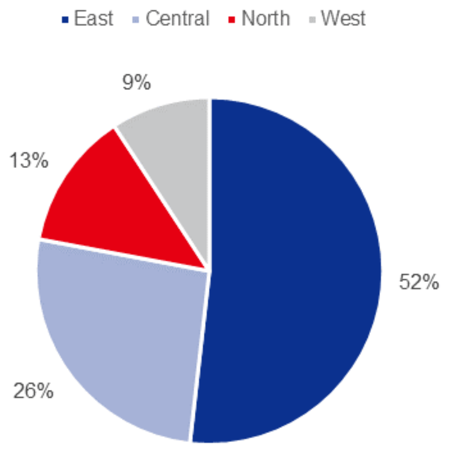
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 100: Post expansion, capacity share of East region to rise to 20% (14% now), while share of West & South will see some fall by FY23



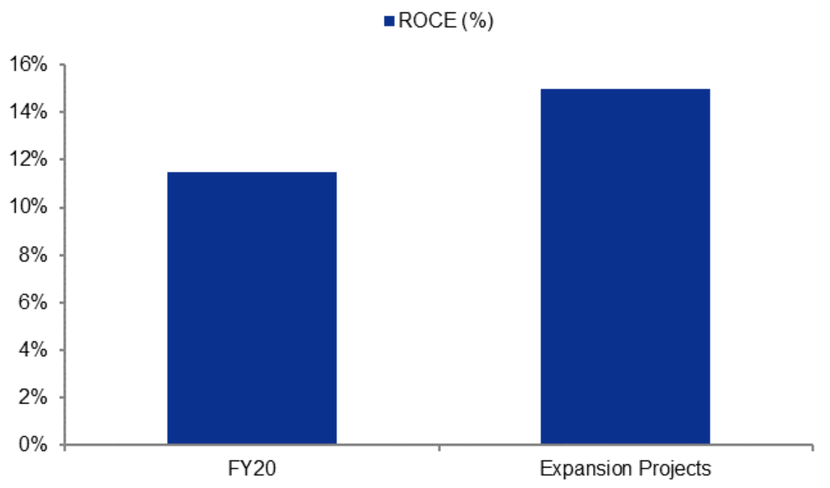
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 101: East to see maximum capacity addition in UTCEM's overall capex plan (new capacity addition), followed by Central and North regions by FY23



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 102: Proposed capacity addition ROCE to be +15% vs. 11.5% in FY20



SOURCES: INCRED RESEARCH, COMPANY REPORTS

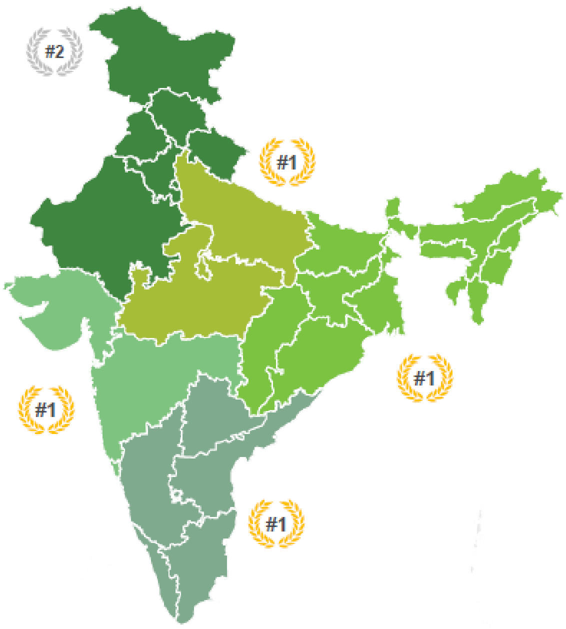
Figure 103: UTCEM was the market leader in all regions as at FY20

North

Shree Cement	23%
UltraTech Cement	23%
Ambuja Cements	10%
JK Lakshmi Cement	7%
ACC Limited	6%
Capacity (MTPA)	~104

West

UltraTech Cement	43%
Ambuja Cements	16%
ACC Limited	6%
JK Lakshmi Cement	4%
India Cements	2%
Capacity (MTPA)	~65



Central

UltraTech Cement	35%
Birla Corporation	13%
ACC limited	7%
Shree Cement	3%
Ambuja Cements	3%
Capacity (MTPA)	~68

East

UltraTech Cement	16%
Dalmia Group	15%
Shree Cement	11%
ACC Cement	9%
Ambuja Cements	8%
Capacity (MTPA)	~100

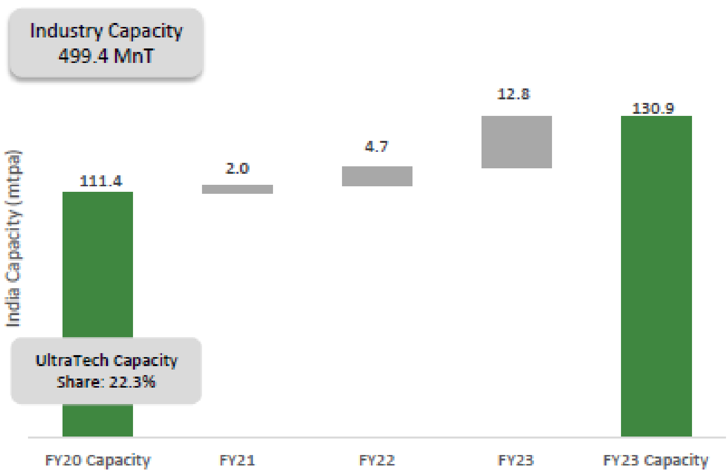
South

UltraTech Cement	11%
Ramco Cements	9%
India Cements	7%
Dalmia Bharat	7%
ACC Limited	6%
Capacity (MTPA)	~181

Map is used only for representation purpose

SOURCES: INCRED RESEARCH, UTCEM CORPORATE PRESENTATION

Figure 104: Proposed expansion would increase capacity to 131mt by FY23



ONGOING Expansions

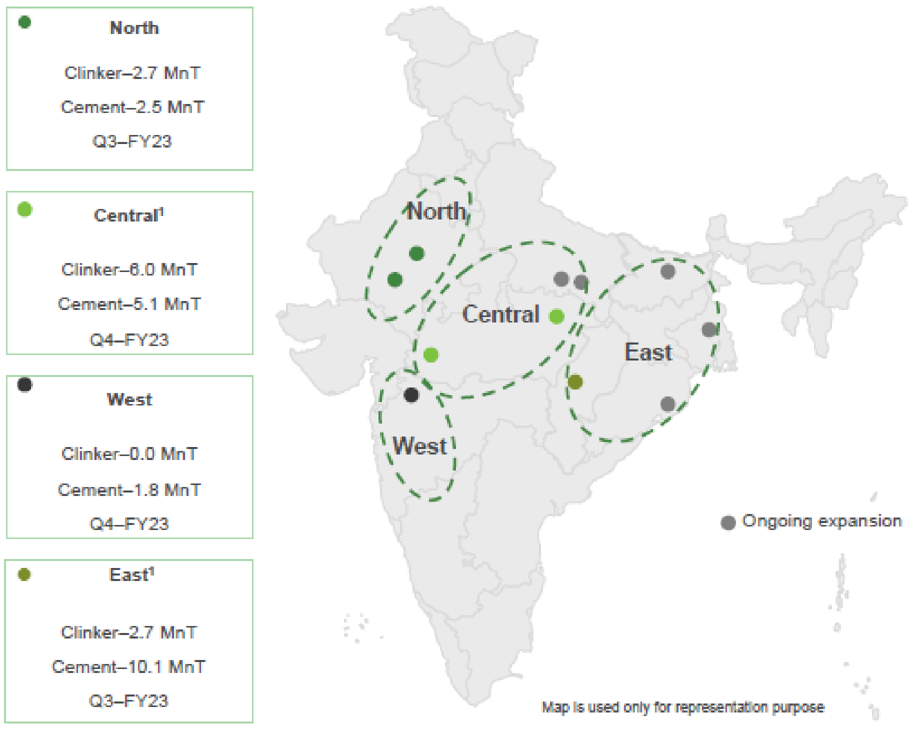
Zone	State	Cement Capacity (mtpa)
Cuttack	Orissa	2.2
Bara & Dalla	UP	3.3
Dankuni	WB	0.6
Patliputra	Bihar	0.6
Total		6.7

PROPOSED Expansions

Cluster	State	Cement Capacity	Grinding Capacity (mtpa)
Hirmi	CG	4.5	Cuttack: 2.2, Durgapur: 0.6, Sonar Bangla: 0.6, Jharsuguda: 0.6, Hirmi: 0.6
Dhar	MP	4.2	Dhar: 1.8, Dhule: 1.8 & Neem ka Thana: 0.6
Pali	Raj	1.9	Pali
Patliputra	Bihar	2.2	Patliputra
Total		12.8	

SOURCES: INCRED RESEARCH, UTCEM CORPORATE PRESENTATION

Figure 105: UTCEM is actively addressing growth opportunities across the country

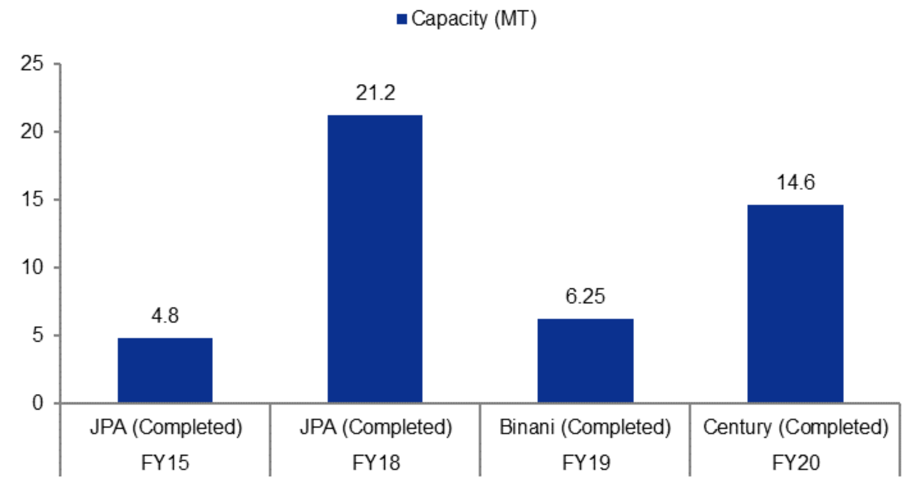


SOURCES: INCRED RESEARCH, UTCEM CORPORATE PRESENTATION
1^ INCLUDES ONGOING CAPACITY EXPANSION

Turnaround acceleration of acquired cement units strengthens footprints in existing & new markets

- UTCEM has focussed on strengthening its footprint via the inorganic route over the last six years. The company has a strong track record of acquiring underutilised assets and successfully turning them around. Of the total grey cement capacity of 111.4mt (including the 4mtpa Bara GU), inorganic capacity built through mergers and acquisitions (M&A) is ~52mtpa.
- The successful turning around of JP Associates and Binani Assets has helped the company enter newer readymade markets quickly, and gain/further consolidate market share in those regions.
- UTCEM has managed to secure its raw materials supply, particularly in Northern India, post the acquisition of UltraTech Nathdwara Cement Limited (UNCL, the erstwhile Binani Cement) by acquiring its existing limestone resources along with its plants. This will help the company scale up capacity quickly, if needed, without waiting for limestone mine auctioning in the clinker-deficit northern region. Management already highlighted that its UNCL capacity potentially could be doubled, if needed.
- When UTCEM acquired assets from the JP Group, it was running much below industry utilisation level. However, in the past three years post acquisition, the company has successfully taken utilisation of JP Group assets to industry-average levels of +70% and turned the plants PBT-positive in FY19 itself. Similarly, UNCL's utilisation levels have been scaled up significantly in the past two years post acquisition. Century Cement's (CENT) assets also strengthened their positions in Eastern markets and provided deeper penetration in Central and Western markets. However, within six months of acquisition, capacity utilisation increased over 80% and completed brand transition for ~72% of volumes.

Figure 106: Key acquired capacities JPA, UNCL (as Binani Cement) and Century Cement over last 5 years



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Track record of successfully integrating large acquisitions

1. Jaypee Cement

- **Brief:** UltraTech acquired 11 units of JP Associates with a capacity of 21.2mtpa in Jun 2017, enabling the company to strengthen its presence in the North, Central and South Indian markets. The running expenses of these establishments are inflated on average by Rs200/t (Rs125/t due to operational costs and Rs75/t due to higher mining royalty under the Mumbai Metropolitan Region Development Authority [MMRDA]). These plants became EPS-accretive from 1QFY20 and are running at a utilisation of +70% vs. some plants at ~20% at the time of acquisition.

- **Rationale:** a) Enter new markets (Central India, Coastal Andhra Pradesh and Himachal Pradesh) with limited UTCEM presence, b) unique opportunity to acquire over 20mtpa of capacity in one go, c) securing large limestone reserves, and d) acquisition enterprise value's (EV) lower-than-expected replacement cost.

- **Turnaround:** a) Capacity utilisation improved to about +70% in line with UTCL's existing plants in similar markets, b) brand transition completed within 52 days of acquisition for all the plants, c) achieved about 25% variable cost reduction over pre-acquisition level, and d) EBITDA/t improved from negative level to +Rs1,000/t.

2. Binani Cement

- **Brief:** UTCL's resolution plant for Binani Cement (BCL) was approved by the National Company Law Appellate Tribunal (NCLAT) in Nov 2018, post which was renamed UltraTech Nathdwara Cement (UNCL) with effect from 13th Dec 2018. UNCL has a capacity of 6.25mtpa in Rajasthan (4.85mtpa integrated unit, 1.4mtpa split grinding unit).

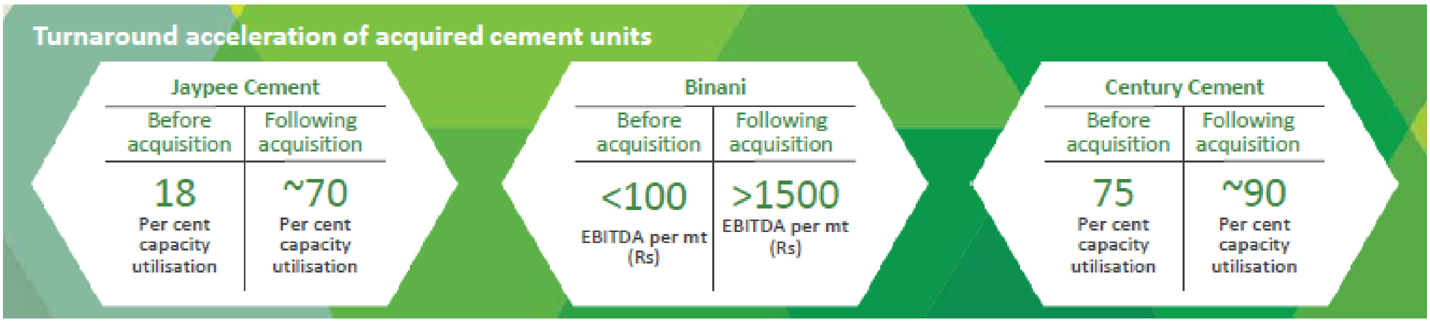
- **Rationale:** a) Enabled company to access large reserves of high-quality limestone, and b) consolidated the company's leadership in the fast-growing Northern and Western markets in India.

- **Turnaround:** a) Capacity utilisation increased to 75% vs ~45% (pre-acquisition), b) brand transition completed in 21 days, c) achieved one of the lowest variable costs of production among UTCEM plants in the North region, d) FY20 operating EBITDA >Rs1,250/t, and e) completed the disposal of one of its overseas non-core assets.

3. Century Cement

- **Brief:** With the acquisition of CENT's cement business of 14.6mtpa in Oct 2019, three integrated plant units and 1 grinding unit were added to UTCEM's overall capacity. CENT's asset capacities are spread across the West (36%), East (33%) and Central (31%) India.
- **Rationale:** a) Strengthened position in the Eastern markets provided deeper penetration in Central and Western markets, and b) added ~6,500 dealers, increasing the network size to ~29,000.
- **Turnaround:** a) Capacity utilisation increased over 80% within six months of the acquisition, b) completed brand transition for 72% volume, c) cost improvement programme underway, d) achieved EBITDA per tonne of Rs700/t in 2QFY21, and e) complete integration by Mar 2021 (brand transition from Birla Gold to UltraTech).

Figure 107: Turnaround acceleration of acquired cement units



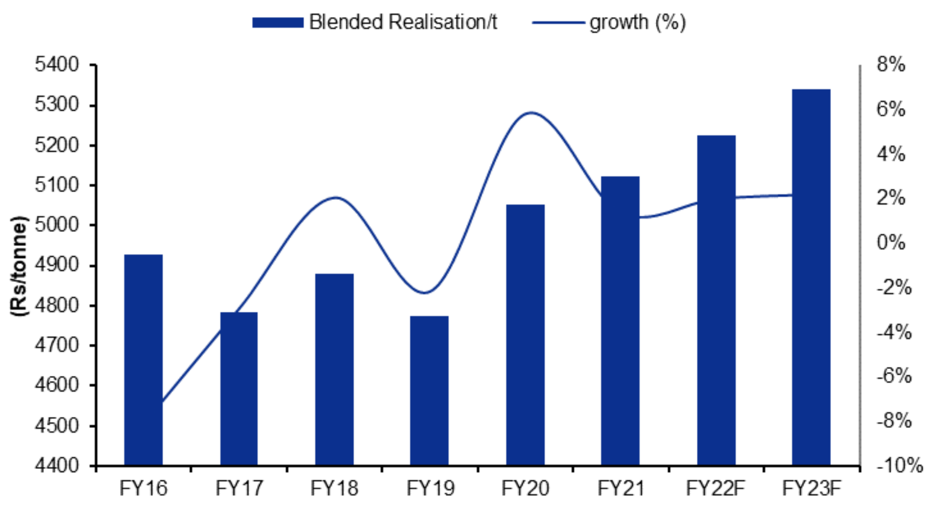
SOURCES: INCRED RESEARCH, UTCEM INVESTORS PRESENTATION

Sustainable price hikes and positive operating leverage to offset cost inflation and buoy EBITDA/t

Best placed to benefit from revival/sustainable pricing ➤

- We believe UTCEM is best placed to benefit from a pricing revival due to (a) its unmatched pricing power as it is a top player in all regions in India, (b) a gradual pick-up in demand on the back of capacity expansion in Central and North India and (c) scope of operating/financial leverage in the recently acquired cement assets of JPA, Binani and Century.
- Typically, the market leader sets prices in a region, against which other cement players benchmark their prices. From that perspective, UTCEM is in an enviable position as a market leader in Central, West and South India, and a top-2 player in North and East India, in our view.
- We note that cement prices have remained firm in FY21, as companies have increased their focus on margins over market share gains. According to our channel checks, cement prices started increasing from Mar 2021 and, and with rising cost inflation we expect cement companies to announce further price hikes soon. However, our channel checks indicate there has been meaningful increase in cement prices so far in Mar-Apr 2021.
- Going forward, we believe that pricing volatility in the India market should remain low due to better demand-supply dynamics. Therefore, we factor in a ~2.1% realisation CAGR over FY21-FY23F.

Figure 108: Realisations to get a boost led by a mix of volume and pricing growth



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

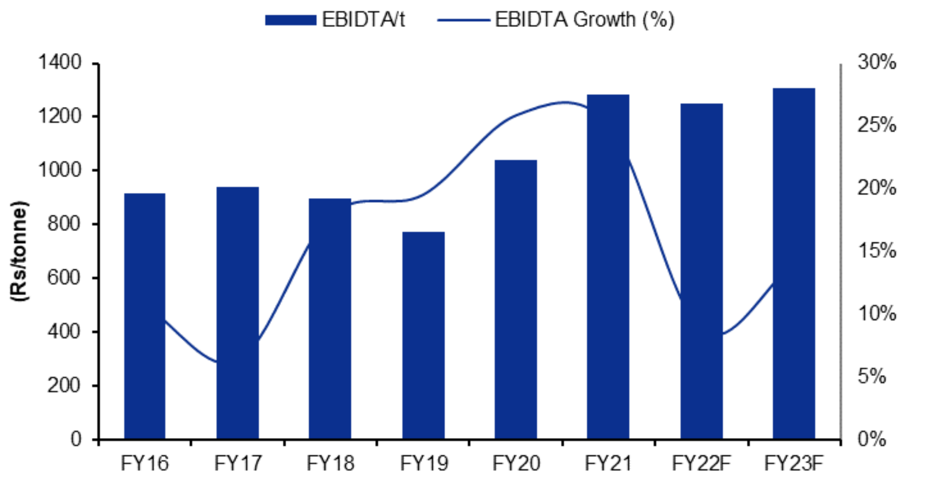
Focus on cost efficiencies to boost EBITDA/t ➤

- Cement companies to a greater extent rationalised fixed costs during recent lockdowns and, as a result, they reported record high margins in 9MFY21. Pet coke prices (and HCV coal) prices continue to rise and rose to ~US$125/t by Mar 2021-end (nearly doubling from the lows of ~US$60/t in Jun 2020). We expect the power and fuel (P&F) costs to rise significantly in 1QFY22F (already witnessed increase of Rs64/t in 4QFY21).
- On average, US$10 change in pet coke prices drive a Rs50/t increase in fuel costs, some of which can be absorbed by utilising a higher proportion of HCV coal/alternate fuels depending on their price movements relative to pet coke.
- UTCEM's fuel mix changed in favour of coal with pet coke consumption at 44% and imported coal consumption at 43% in 3Q.
- Diesel prices have continued their upward trend since late Nov but remained flattish in Mar. During 4QFY21, diesel prices were up ~10%/22% qoq/yoy respectively. We expect overall freight costs could remain elevated over the coming quarters but UltraTech (pan-India presence, and upcoming capacity expansions) are better positioned to manage freight costs going forward.

Cost-saving measures

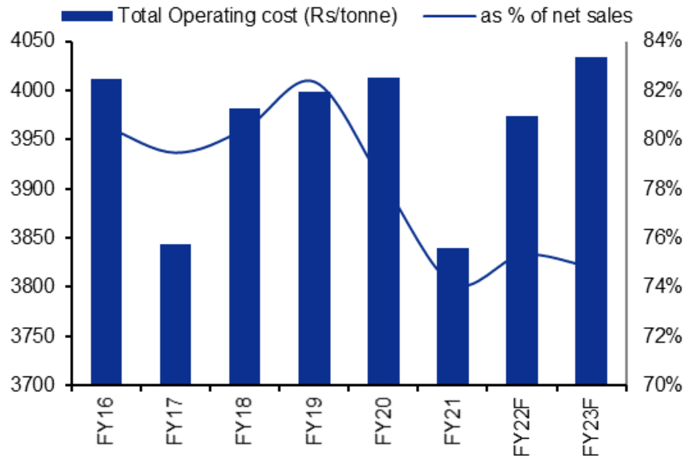
- UTCEM achieved its target of ~10% fixed-cost savings (Rs5bn p.a., or Rs65/t) in FY21. Besides, the company is setting up a 177MW WHRS by Mar 2024 taking its total WHRS capacity to 302MW (~26% of total power consumption). Additionally, it plans to increase solar and wind power capacity from 99MW currently to >350MW by FY24F. Accordingly, its green power share is set to increase to 34% (WHRS 26%, solar 8%) by FY24F and provide cost savings of ~Rs4.5bn.
- The setting up of additional grinding units, especially in East, increasing the blending ratio from 1.34x currently to ~1.4x by FY23 and better operating leverage via higher volume growth can provide additional cost savings of Rs 30-40/t as per our understanding. UTCL may not be required to pay additional limestone mining royalty of Rs64/t on acquired assets of JPA/ Century owing to the recent MMRD Act amendment (benefit of ~Rs1.5bn p.a.). Hence, we believe the overall cost/t can further reduce by Rs100/t by FY24F.
- We believe improved realisations and benefits of operating leverage will only partly be able to absorb the increase in variable costs, thus impacting margins by 150-200bp. The recent sharp jump in pet coke/coal and diesel prices, in our view, will moderate the rollback in price hikes through the year. Unitary EBITDA for FY21 settled at ~Rs240/t higher than in FY20. We expect UTCEM's consolidated EBITDA/t to rise from Rs1,283 in FY21 to Rs1,305 by FY23F.

Figure 109: Better realisations and cost streamlining to drive EBITDA/t growth



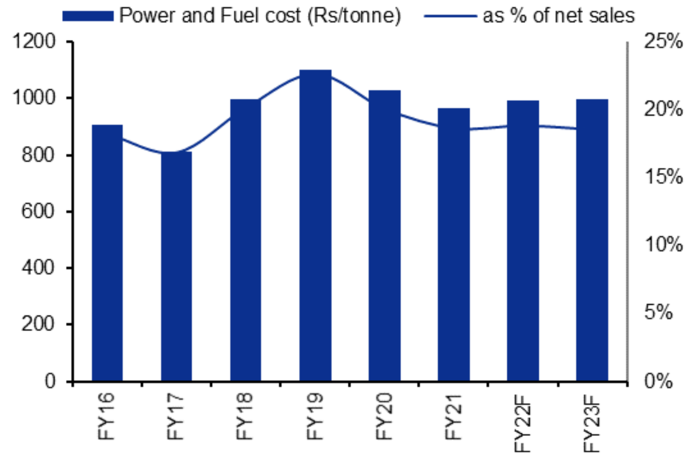
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 110: Opex/t to increase led by higher variable costs



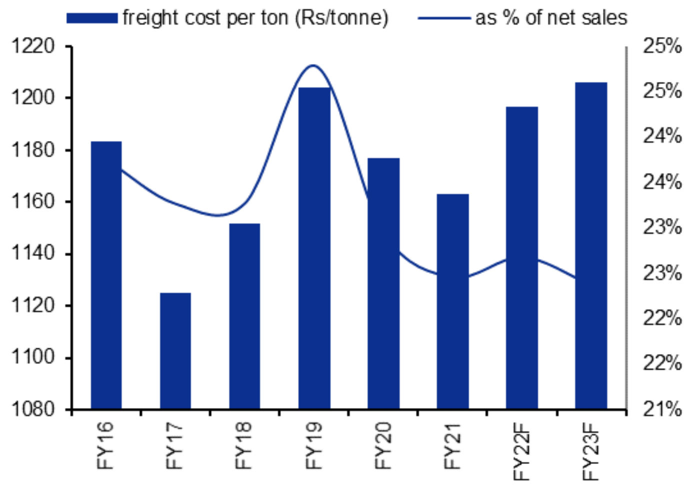
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 111: Marginal increase in P&F costs amid higher input costs



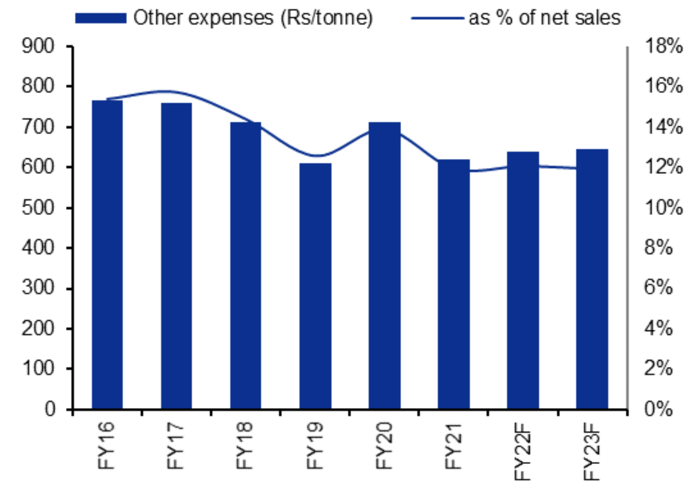
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 112: Higher diesel prices to push up freight costs



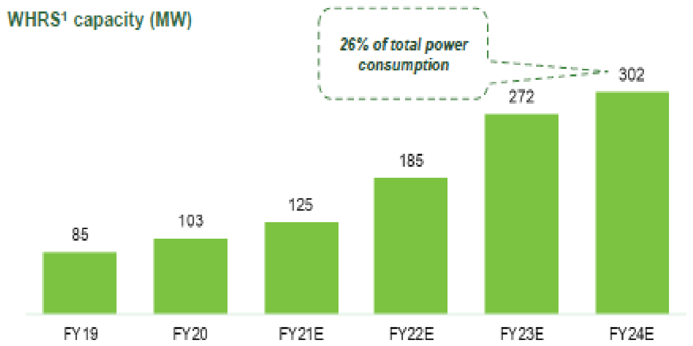
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 113: Other expenses to remain in control



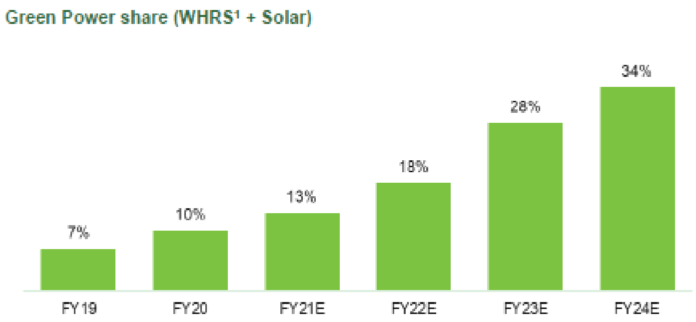
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 114: UTCEM is setting up 177MW WHRS, taking its total WHRS capacity to 302MW by FY24



SOURCES: INCRED RESEARCH, UTCEM CORPORATE PRESENTATION
WHRS[1]: WASTE HEAT RECOVERY SYSTEM

Figure 115: UTCEM's focus is on raising green energy power mix



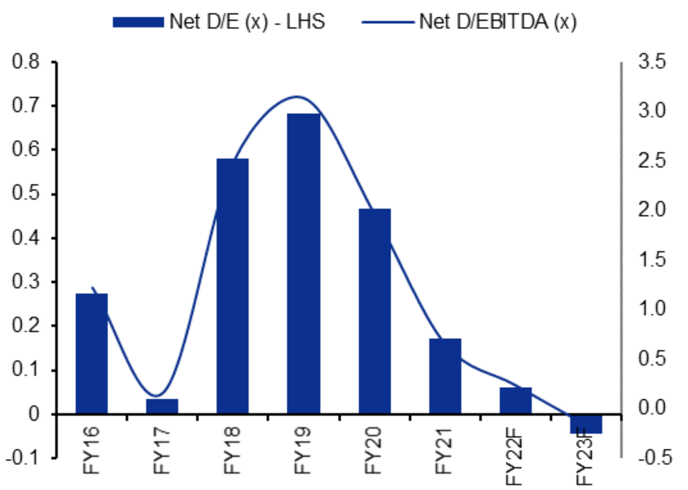
SOURCES: INCRED RESEARCH, UTCEM CORPORATE PRESENTATION
WHRS[1]: WASTE HEAT RECOVERY SYSTEM

De-leveraging story remains intact

UTCEM to be net cash by early FY23F and likely to generate operating cash flow (OCF) of >Rs100bn annually

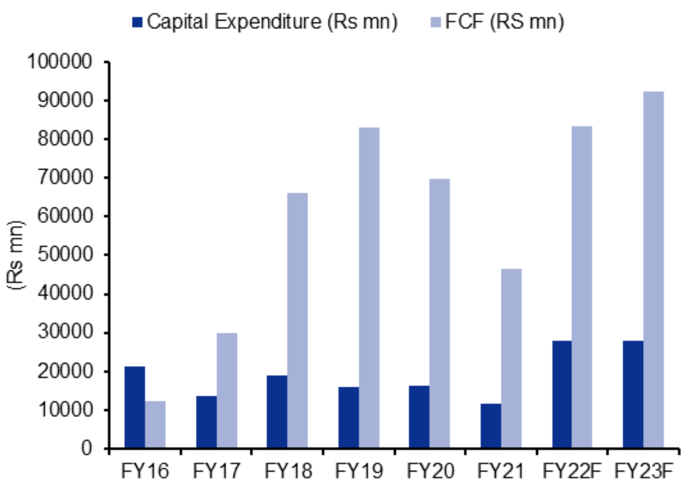
- UTCEM trimmed its debt profile to Rs67bn at the end of Mar 2021, from its peak of Rs228bn in FY19, through a combination of asset sweating, improved utilisation levels and profitability of acquired assets such as Binani and Century, and strong working capital control.
- Recently, UTCEM outlined a capacity expansion project of 19.5mtpa for cement and 11.4mtpa for clinker with total capex of Rs65bn (including some already incurred on ongoing expansions). Despite Rs25bn-30bn p.a. capex, including maintenance capex vs a +Rs125bn EBITDA run-rate, we expect debt to continue sliding and the company to remain on the path to achieving its zero net debt target by 2HFY22F.
- UTCEM is looking to divest its non-core assets in the UAE and recover the loans given to the Binani Fiberglass business, which was part of the Binani acquisition (Source: Analyst conference call). This, if successful, would help reduce leverage further, in our view.
- We expect the company's net D/E to fall from 0.5x in FY20 to nil in FY23F, and net debt/EBITDA from 2x in FY20 to -0.2x in FY23F. The key downside risk to reduction in leverage position is if UTCEM goes for another M&A in the near future, which is not likely, in our view.

Figure 116: Net debt/EBITDA likely to move below zero by FY23F



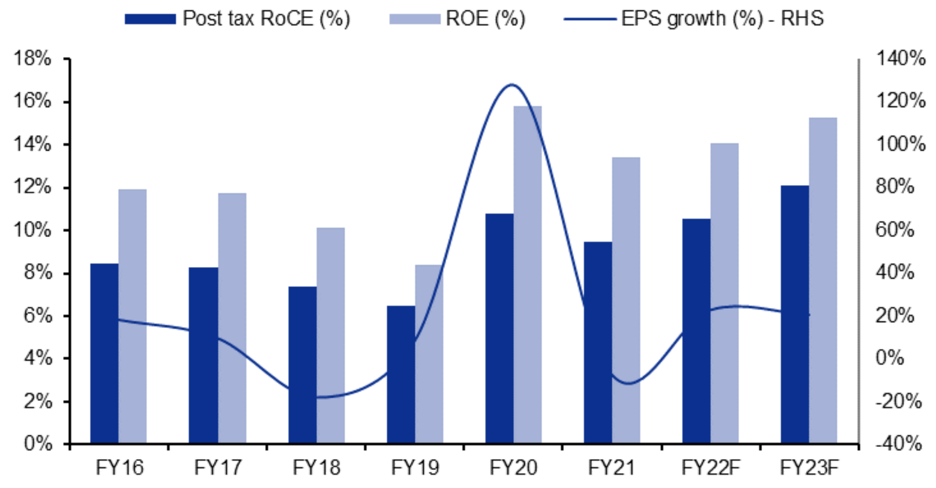
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 117: Debt to continue sliding despite total annual requirement capex of Rs25bn-30bn in FY22-23F with healthy free cash flow (FCF) generation



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 118: With improved unitary EBITDA and ongoing/announced expansions at under US$60/t, we expect post-tax ROCE to improve further to the low teens by FY23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Initiate with Add rating, FY23F TP of Rs7,592

Valuation

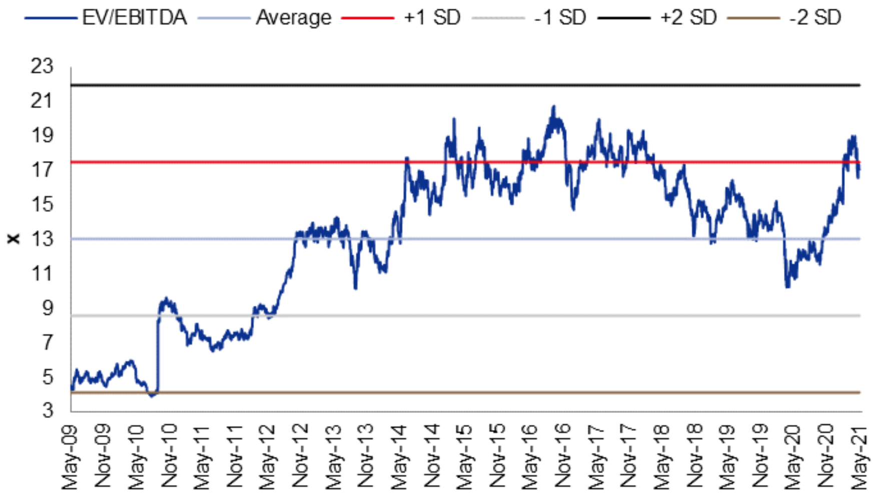
- **UTCEM is our preferred pick** given its diversified exposure and strong earnings growth (from M&A scale/synergies & deleveraging). The company has consistently gained market share in all the regions and now has a fourth of India's total cement capacity. UTCEM has a strong pipeline of projects and brownfield expansion potential, offering visibility on long-term growth.
- UTCEM has smartly utilised the downcycle to build its capacity base through organic/ inorganic routes. We believe acquisitions have come at a reasonable price, while improvement in operational efficiency of acquired plants will further lead to volume growth.
- Led by capacity expansion, cost savings initiatives and improving regional exposure, we expect UTCEM to deliver strong EBITDA CAGR of ~13% over FY21-FY23F.
- The stock is admittedly up 100% from its lows post COVID-19-led corrections (Apr 2020) and is up 30% vs the Nifty index over that time. We expect the strong volume/Cash flow from operations (CFO) growth and better balance sheet strength to support a further rerating. Our positive stance on valuations is supported by an improvement in its ROE/ROCE profile; we expect FY23F ROE to almost double to 16% compared to FY19 levels.
- AT CMP of Rs6,653, UTCEM is trading at FY22F/FY23F EV/EBITDA of 15.2x/12.9x, respectively. We initiate coverage on the company with an Add rating and target price of Rs7,592 set at 15x FY23F EV/EBITDA. The 15x is in line to its five-year average EV/EBITDA, and we believe further deleveraging will result in rerating of multiples and given the size of the company, it should trade at a premium to most peers. We see a case for valuation multiples to expand, backed by ROE improvement. We expect the balance sheet to be net cash by early F23F. UTCEM is our preferred pick in the cement space.
- Above-industry volume growth, cost control, balance sheet deleveraging and improvement in ROE and ROCE are the key reasons for the Add rating on the stock.

Figure 119: Our Target price of Rs7,592 is based on 15x FY23F EV/EBITDA

Valuation	TP
Target EV/EBITDA (x)	15.0
Target EV (Rs m)	21,54,321
Net debt / (cash) (Rs m)	(36,821)
No. of shares (m)	289
Fair value per share (Rs)	7,592

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 120: We value the stock at 15x FY23F EV/EBITDA to arrive at Rs7,592 TP



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 121: UTCEM trading at P/BV at c.3.4x for FY23F

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Downside risk

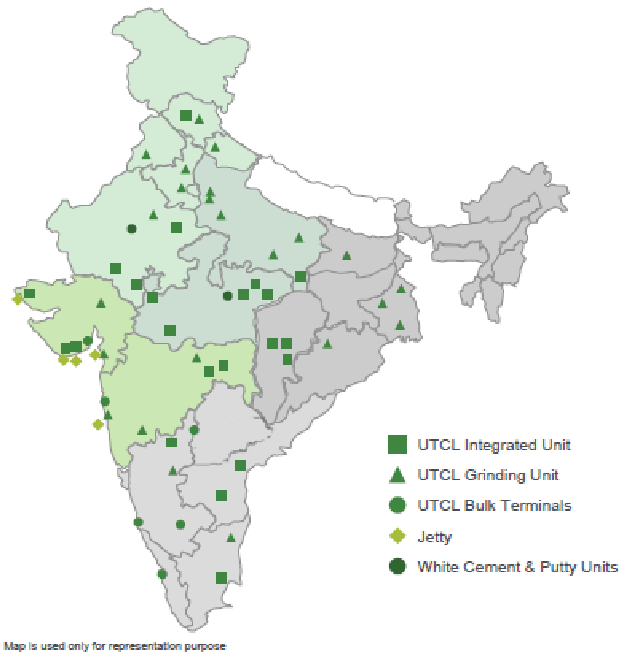
- Any further slowdown in cement demand. Cement demand growth was badly impacted in 4QFY20 and 1QFY21 due to the COVID-19 pandemic. Any prolonged slowdown in general construction activities across the country might impact UTCEM's volume growth.
- A slower-than-expected ramp-up in infra spend or urban housing uptake; and weaker cement offtake from UTCEM's legacy and slow ramp-up of UNCL and Century Cement assets.
- Any correction in cement prices or/and further rise in input costs sustaining over the medium term could hit realisations and EBITDA/t.
- Any further stretching of the balance sheet might impact the company's overall performance.
- Second wave of COVID might impact overall industry volume in near term as industry witnessing a similar situation and the Covid challenge looks bigger than the last year. This might create a major dent in the industry again in a nearer term. Any major impact with the disruption in the supply chain, labour shortage, drying of cash flows and projects getting halted or delayed.

Company introduction and management profile

Company background

- UTCEM is India's largest cement company with a pan-India presence (except for the North East) with a capacity of about 116.8mtpa (111.4mtpa in India, 5.4mtpa overseas). We estimate it had a +22% market share in terms of volume in the domestic market as at FY21.
- The company also has ready-mix concrete and white cement businesses. It has a total of 1,170MW worth of captive power plant capacity and green power (WHRS + Solar + Wind) capacity of 217MW as at FY21.
- UTCEM's network comprises 49 cement plants and >100 ready mix concrete plants. Its building solutions unit has spread to 2,350 outlets as at Dec 2021. The company sells its products through a network of ~29,795 distributors and ~64,204 retailers. Channel sales stood at ~70%, while direct sales to key large customers stood at ~30% as at Dec 2020.
- UTCEM is among the top players in each region, with capacity market shares of 23% in North, 35% in Central, 16% in East, 43% in West and 11% in South (as per UTCEM's presentation). The company is a 60% subsidiary of Grasim (GRASIM IN, NR), the flagship company of the Aditya Birla Group.
- The company has 23 integrated plants, 1 clinkerisation plant, 27 grinding units and seven bulk terminals. Its operations span India, the United Arab Emirates, Bahrain, Bangladesh and Sri Lanka.
- UTCEM plans to add 11.4mtpa clinker and 19.5mtpa cement capacities by FY23F, which includes 6.7mtpa of ongoing expansion in Uttar Pradesh, Odisha, Bihar and West Bengal, which the company expects to complete by FY22F. Hence, its total domestic capacity will increase to 131mtpa. UTCEM plans to add 10.1mtpa in East, 5.1mtpa in Central, 2.5mtpa in North and 1.8mtpa in West region by FY23F. Of the total ~19.5mtpa capacity expansion, 72% would be through brownfield expansion and rest greenfield.
- The new capacity expansion will be concentrated in East and Central India, backed by robust demand outlook and company's inability to service these markets in the peak season due to capacity constraints.

Figure 122: UTCEM is highly diversified geographically with pan-India presence



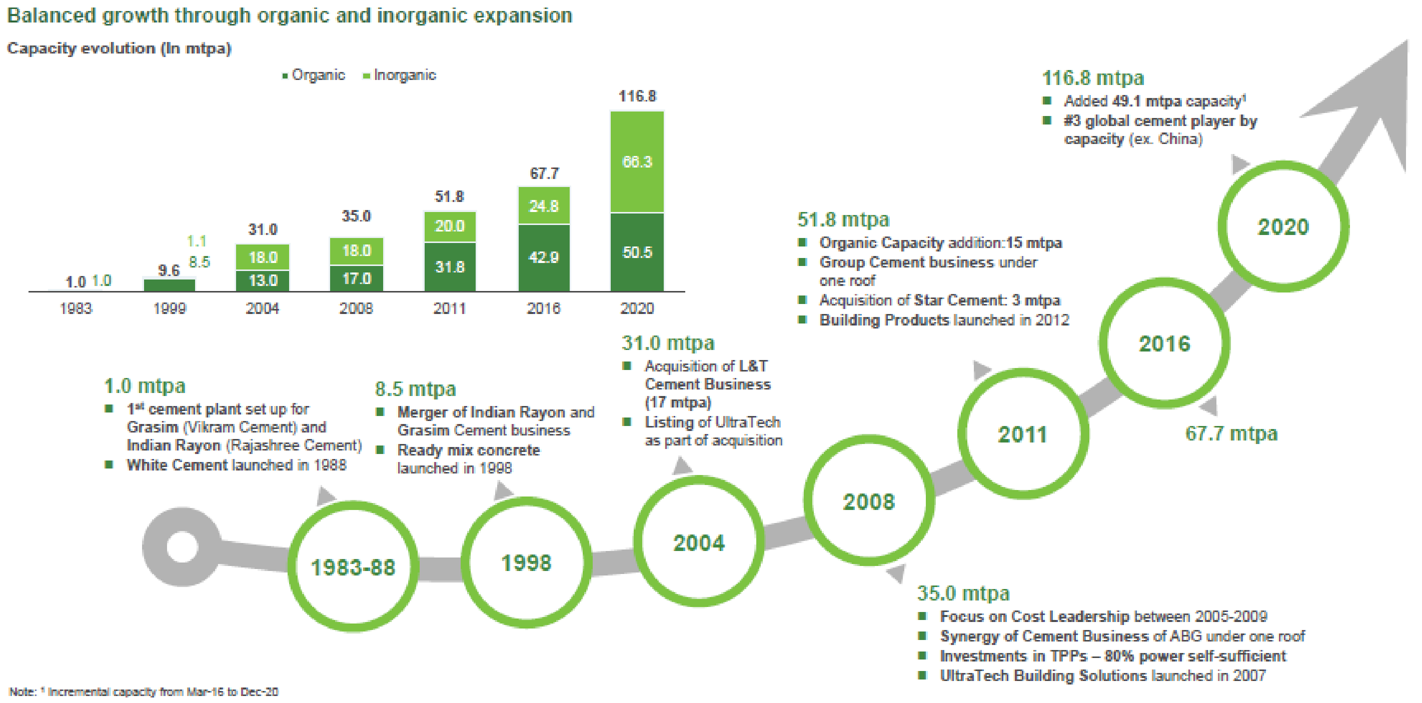
- 23 Integrated Units[1] (IU)
- 27 Grinding Units[2] (GU)
- 7 Bulk Packaging Terminals[3] (Sea + Rail)
- 2 White Cement & Putty Units
- 5 Jetties
- 1 putty plant under development

Zones	Zonal Capacity (mtpa)			
	UTCL Capacity	UTCL Mix	Industry Capacity	UTCL Share in Industry
North	23.8	21%	~104	23%
Central	23.3	21%	~68	34%
East	16.1	15%	~100	16%
West	27.7	25%	~65	43%
South	20.5	18%	~181	11%
All India	**111.4**	**100%**	**~518**	**21%**
Overseas	5.4			
Total	**116.8**			

SOURCES: INCRED RESEARCH, UTCEM CORPORATE PRESENTATION
NOTE: 1^ 22 IU IN INDIAA AND 1 OUTSIDE INDIA, 2^ 23 GU IN INDIA AND 4 OUTSIDE INDIA, 3^ 6 TERMINALS IN INDIA AND 1 IN SRI LANKA

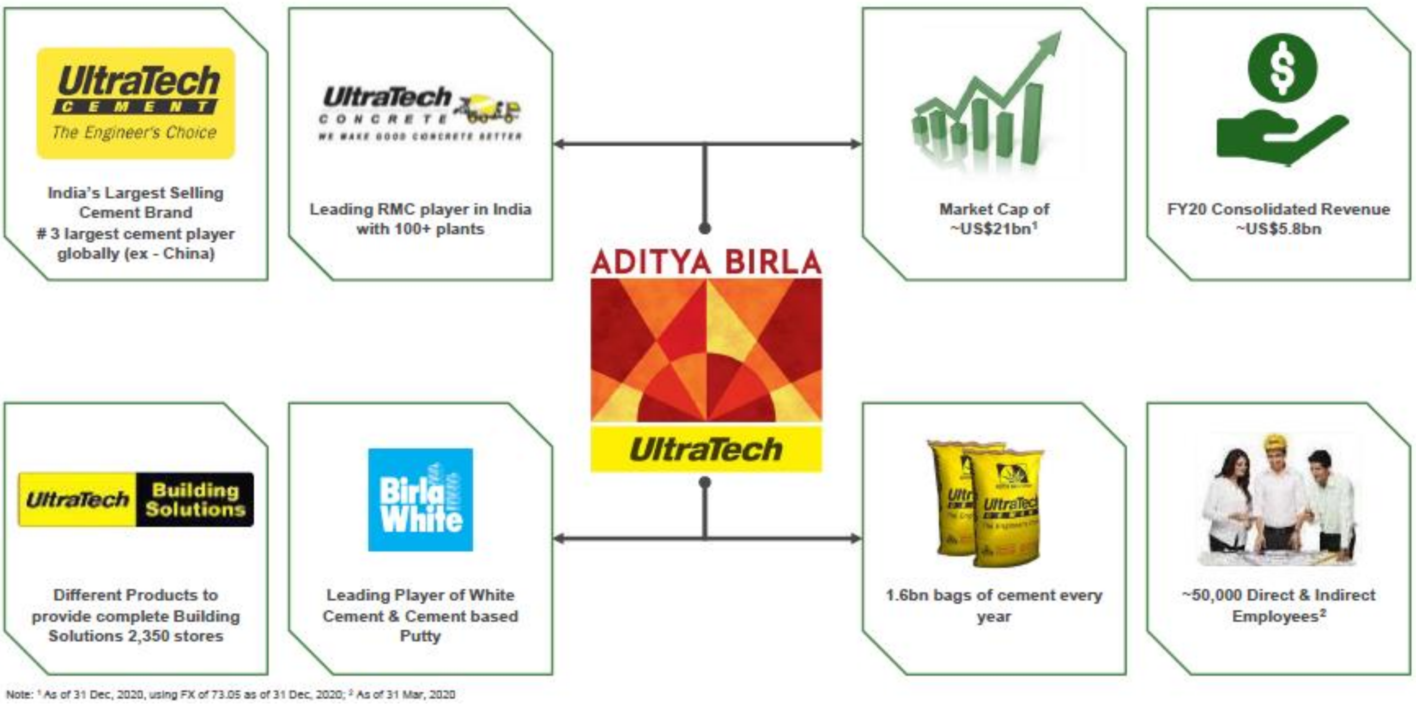
UTCEM's milestones

Figure 123: India's largest cement company's journey



ABG = ADITYA BIRLA GROUP
SOURCES: INCRED RESEARCH, UTCEM CORPORATE PRESENTATION

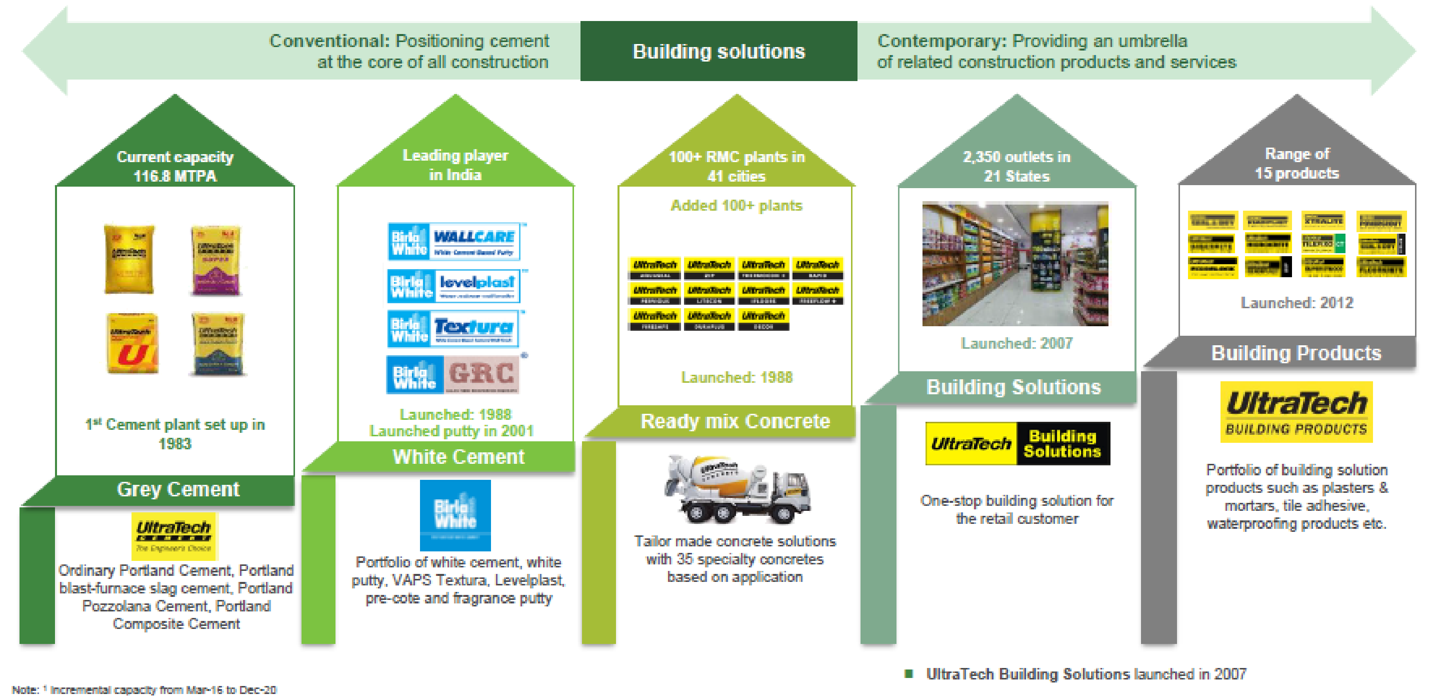
Figure 124: UTCEM's key brands



SOURCES: INCRED RESEARCH, COMPANY REPORTS

UTCEM's product offering

Figure 1: Diversified product offerings catering a full suite of building solution products



SOURCES: INCRED RESEARCH, UTCEM CORPORATE PRESENTATION

SWOT Analysis

Figure 2: Ultratech Cement Limited

Strength	**Weakness**
Leader in cement Industry Well diversified – pan-India player	Prolonged slowdown in general construction activity across the country. Further increase in input costs. Any fall in cement prices
Opportunity	**Threat**
Expanding capacity by 20mtpa to gain further market share.	Delay in aforesaid capacity expansion. Market share loss in any of the regions.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key management profile

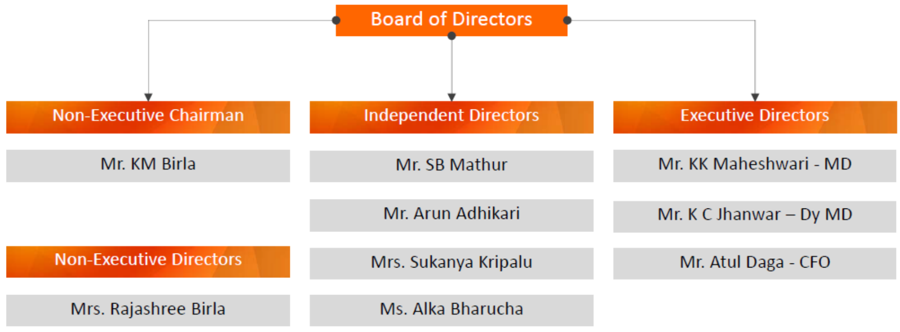
The company's board comprises 12 directors, which include the managing director, two whole-time directors and six independent directors (including three women independent directors).

K. C. Jhanwar, Managing Director: He is a Chartered Accountant with over 39 years' experience, of which 38 have been with the Aditya Birla Group. He has held various roles in finance, operations and general management across the Group's cement and chemical businesses, including greenfield and brownfield projects. He was formerly the company's Deputy Managing Director and Chief Manufacturing Officer.

K. K. Maheshwari, Vice Chairman: He has been with the Aditya Birla Group (ABG) for 35 years. Mr. Maheshwari has held several key leadership roles, including that of steering the Group's chemicals, international trading, pulp & fibre, textiles and cement businesses. He has overseen various greenfield and brownfield expansions and strategic acquisitions globally. Mr. Maheshwari stepped down recently from the Managing Director role, which he headed since 2016. He holds a Masters in Commerce (business administration) and is a Fellow Member of the Institute of Chartered Accountants of India.

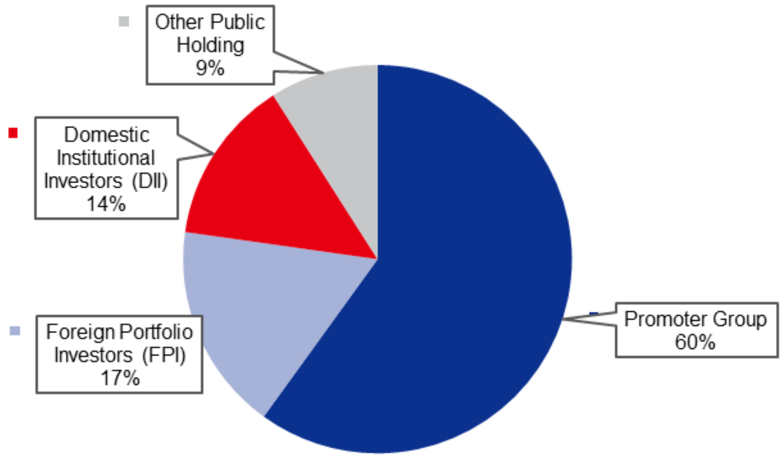
Atul Daga, Wholetime Director and CFO. He is a CA with over 32 years of experience, of which over 25 have been with ABG. His key responsibilities include risk management, audit and compliance, planning, treasury, capital structuring and capital allocation, among others. He has undertaken several initiatives such as creating a robust platform for managing Investor Relations, evaluating M&A opportunities, and setting new benchmarks for raising long-term borrowings in the domestic financial markets. Development of financial strategy and monitoring of control systems, internal audit and actively participating in the company's growth strategy are part of his portfolio.

Figure 3: Key management as at FY20



SOURCES: INCRED RESEARCH, COMPANY REPORTS

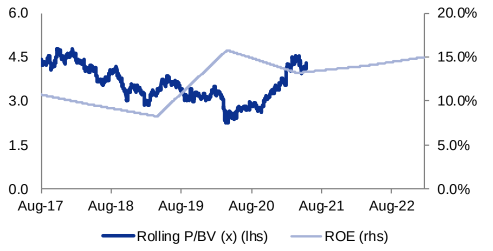
Figure 4: UTCEM's shareholding pattern (as at 31 Mar 2021)



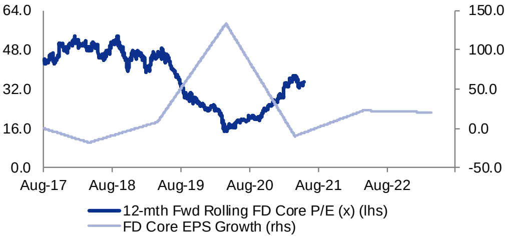
SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Total Net Revenues	**4,16,088**	**4,24,299**	**4,47,258**	**5,09,423**	**5,70,051**
Gross Profit	**4,16,088**	**4,24,299**	**4,47,258**	**5,09,423**	**5,70,051**
Operating EBITDA	**73,469**	**92,472**	**1,15,679**	**1,25,809**	**1,43,621**
Depreciation And Amortisation	(24,507)	(27,227)	(27,002)	(28,352)	(30,195)
Operating EBIT	**48,962**	**65,245**	**88,677**	**97,457**	**1,13,426**
Financial Income/(Expense)	(17,779)	(19,917)	(14,857)	(12,331)	(10,481)
Pretax Income/(Loss) from Assoc.	5	(12)	22	22	22
Non-Operating Income/(Expense)	4,634	6,511	7,342	8,076	9,287
Profit Before Tax (pre-EI)	**35,823**	**51,827**	**81,184**	**93,224**	**1,12,254**
Exceptional Items	(1,139)		(2,607)		
Pre-tax Profit	**34,685**	**51,827**	**78,576**	**93,224**	**1,12,254**
Taxation	(10,681)	5,682	(25,387)	(27,961)	(33,670)
Exceptional Income - post-tax					
Profit After Tax	**24,004**	**57,509**	**53,189**	**65,263**	**78,584**
Minority Interests	31	44	13	13	13
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**24,035**	**57,553**	**53,202**	**65,276**	**78,597**
Recurring Net Profit	24,823	57,553	54,967	65,276	78,597
Fully Diluted Recurring Net Profit	**24,823**	**57,553**	**54,967**	**65,276**	**78,597**

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
EBITDA	73,469	92,472	1,15,679	1,25,809	1,43,621
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(6,957)	5,157	23,289	(14,165)	(2,277)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	4,634	6,511	7,342	8,076	9,287
Other Operating Cashflow	13,294	14,415	6,486	6,486	6,486
Net Interest (Paid)/Received	(17,779)	(19,917)	(14,857)	(12,331)	(10,481)
Tax Paid	(7,101)	(8,914)	12,910	(27,961)	(33,670)
Cashflow From Operations	**59,561**	**89,724**	**1,50,850**	**85,915**	**1,12,967**
Capex	(15,959)	(16,103)	(18,387)	(28,000)	(28,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	27,097	(25,822)	(70,203)	16,867	
Cash Flow From Investing	**11,138**	**(41,924)**	**(88,590)**	**(11,133)**	**(28,000)**
Debt Raised/(repaid)	(46,482)	(27,955)	(25,646)	(42,000)	(45,000)
Proceeds From Issue Of Shares	(775)	(3)	138	(3,271)	(3,932)
Shares Repurchased					
Dividends Paid	(3,462)	(3,800)	(12,869)	(19,026)	(22,908)
Preferred Dividends					
Other Financing Cashflow	(16,850)	(19,000)	(5,188)	(6,215)	(4,555)
Cash Flow From Financing	**(67,568)**	**(50,759)**	**(43,565)**	**(70,512)**	**(76,394)**
Total Cash Generated	3,131	(2,959)	18,695	4,270	8,572
Free Cashflow To Equity	**24,218**	**19,845**	**36,613**	**32,781**	**39,967**
Free Cashflow To Firm	**88,478**	**67,717**	**77,116**	**87,112**	**95,448**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Total Cash And Equivalents	22,562	47,836	1,29,014	1,33,284	1,41,856
Total Debtors	27,870	23,832	25,717	28,218	31,236
Inventories	40,990	41,834	40,180	47,453	51,539
Total Other Current Assets	38,121	33,713	45,592	44,829	52,445
Total Current Assets	**1,29,542**	**1,47,215**	**2,40,503**	**2,53,784**	**2,77,075**
Fixed Assets	5,03,411	5,07,299	4,91,918	4,91,565	4,89,370
Total Investments	14,048	16,850	12,842	12,842	12,842
Intangible Assets	73,767	71,721	79,065	62,199	62,199
Total Other Non-Current Assets	44,606	49,114	37,507	37,507	37,507
Total Non-current Assets	**6,35,832**	**6,44,983**	**6,21,332**	**6,04,113**	**6,01,918**
Short-term Debt	46,866	56,514	69,393	49,393	29,393
Current Portion of Long-Term Debt					
Total Creditors	31,597	33,629	46,993	37,127	41,203
Other Current Liabilities	76,869	75,663	89,531	94,243	1,02,609
Total Current Liabilities	**1,55,333**	**1,65,806**	**2,05,917**	**1,80,764**	**1,73,205**
Total Long-term Debt	2,06,504	1,73,675	1,35,485	1,13,485	88,485
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	65,932	62,204	78,629	75,629	73,629
Total Non-current Liabilities	**2,72,436**	**2,35,879**	**2,14,114**	**1,89,114**	**1,62,114**
Total Provisions					
Total Liabilities	**4,27,768**	**4,01,685**	**4,20,031**	**3,69,878**	**3,35,319**
Shareholders Equity	3,37,484	3,90,438	4,41,747	4,87,962	5,43,617
Minority Interests	122	75	57	57	57
Total Equity	**3,37,606**	**3,90,513**	**4,41,804**	**4,88,020**	**5,43,674**

Key Ratios

	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Revenue Growth	32.5%	2.0%	5.4%	13.9%	11.9%
Operating EBITDA Growth	19.6%	25.9%	25.1%	8.8%	14.2%
Operating EBITDA Margin	17.7%	21.8%	25.9%	24.7%	25.2%
Net Cash Per Share (Rs)	(840.40)	(631.79)	(262.84)	(102.53)	83.07
BVPS (Rs)	1,228.82	1,352.73	1,530.50	1,690.56	1,883.37
Gross Interest Cover	2.75	3.28	5.97	7.90	10.82
Effective Tax Rate	30.8%		32.3%	30.0%	30.0%
Net Dividend Payout Ratio	13.8%	6.6%	6.8%	24.2%	24.2%
Accounts Receivables Days	22.00	22.24	20.22	19.32	19.03
Inventory Days	(32.31)	(35.62)	(33.46)	(31.39)	(31.69)
Accounts Payables Days	30.17	35.87	44.37	40.02	33.52
ROIC (%)	7.9%	10.6%	15.2%	16.8%	19.5%
ROCE (%)	9.3%	10.8%	14.0%	15.0%	17.3%
Return On Average Assets	6.4%	9.9%	8.5%	9.0%	10.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

CGSCIMB | InCred Equities

Company Note | Cement | India | May 20, 2021

INITIATION

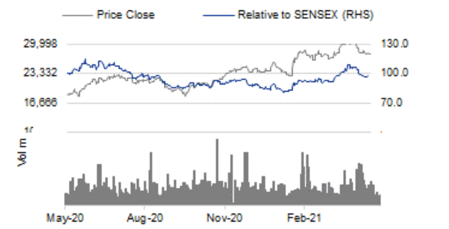
India

REDUCE *(Initiating coverage)*

Consensus ratings*: Buy 14 Hold 21 Sell 7

Current price:	Rs27,475
Target price:	Rs25,799
Previous target:	NA
Up/downside:	-6.1%
InCred Research / Consensus:	-4.2%
Reuters:	SHCM.NS
Bloomberg:	SRCM IN
Market cap:	US$13,572m
	Rs9,91,308m
Average daily turnover:	US$24.2m
	Rs1769.0m
Current shares o/s:	36.1m
Free float:	38.9%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.9)	(0.5)	51.4
Relative (%)	(14.8)	0.8	(8.9)

Major shareholders	% held
Promoter & Promoter Group	62.6
SBI Mutual Fund	2.3
Axis Mutual Fund	1.9

Shree Cement Ltd

Positives abound, but priced in

- SRCM is the most aggressive cement player in India, in our view, tripling its cement capacity in FY11-21 to 43.4mtpa. It is the market leader in North India.
- The commissioning and consequent ramp-up of newer cement capacities, along with robust demand, should aid SRCM's volume ahead of the industry.
- We forecast volume/realisation/EBITDA/t CAGR of 11%/1%/1% respectively over FY20-FY23F. We initiate coverage with Reduce rating and Rs25,799 TP.

Expansion to aid above-industry volume growth

SRCM saw a ~9% volume CAGR over FY15-FY20 on account of aggressive capacity addition (~11% CAGR) over the same period. Most of this addition was organic and at significantly lower cost vs. its peers. Going ahead, we expect SRCM to deliver ~7% capacity CAGR over FY20-FY23F, mainly in the eastern and western regions. SRCM recently commenced a new 3mtpa grinding unit (GU) in the Indian state of Odisha and is setting up a 3mtpa GU in the state of Maharashtra, exposing SRCM to all India's regions. We believe SRCM is well-placed to capture any faster recovery in demand, particularly in North, East and Central regions. Therefore, we build in a 10.7% volume CAGR over FY20-FY23F.

Cost leadership in the sector; cost inflation to limit savings further

SRCM remains one of India's lowest-cost cement producers but lower on realisations vs. peers. Despite this, the company has one of the highest EBITDA/t in the industry due to its highly efficient cost structure while a surge in fuel prices recently could be a near-term spoiler. The possibility of any incremental cost savings appears difficult at present, but pricing discipline could improve further unitary EBITDA metrics. We expect EBITDA/t to rise to Rs1,550 by FY23F from Rs1,508 in FY20.

Strong balance sheet despite aggressive expansion

SRCM generated strong operating cashflows over the years, and comfortably funded past expansions largely through internal accruals. As on Sep 2020, SRCM had a cash balance of Rs40.4bn, lending strength to the balance sheet. We expect the company to have a capex of Rs50bn over FY21-23F to provide for ongoing projects. This would result in free cashflow generation of c.Rs35bn-40bn annually over the next three years ending FY23F.

Positives more than reflected in the price; initiate with Reduce

SRCM currently trades at an EV/EBITDA of 21.1x/18.4x FY22F/23F, a ~25% premium to its recent five- and nine-year averages of 17.5x. However, we believe current valuations after the recent run-up in stock limit further upside. We initiate coverage on SRCM with a Reduce rating and TP of Rs25,799 set at 16.5x FY23F EV/EBITDA. Upside is priced in, in our view. Downside risk: Any prolonged slowdown in demand, delay in expansions and pricing pressure. Upside risk: Better-than-expected demand recovery and pricing growth.

Analyst(s)

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Financial Summary	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue (Rsm)	1,25,547	1,28,684	1,35,824	1,57,784	1,76,382
Operating EBITDA (Rsm)	27,937	37,591	40,983	45,541	51,803
Net Profit (Rsm)	10,064	15,359	22,232	25,108	29,300
Core EPS (Rs)	322.7	425.7	616.2	695.9	812.1
Core EPS Growth	(15.9%)	31.9%	44.8%	12.9%	16.7%
FD Core P/E (x)	98.50	64.54	44.59	39.48	33.83
DPS (Rs)	60.0	110.0	104.8	118.3	138.1
Dividend Yield	0.25%	0.40%	0.46%	0.52%	0.61%
EV/EBITDA (x)	36.33	26.03	23.75	21.29	18.57
P/FCFE (x)	203.25	(65.73)	40.47	42.86	37.81
Net Gearing	23.7%	(10.2%)	(12.4%)	(13.1%)	(15.4%)
P/BV (x)	10.25	7.53	6.64	5.86	5.15
ROE	12.5%	13.4%	15.8%	15.8%	16.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.01	0.98	0.99

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 18 MAY 2021

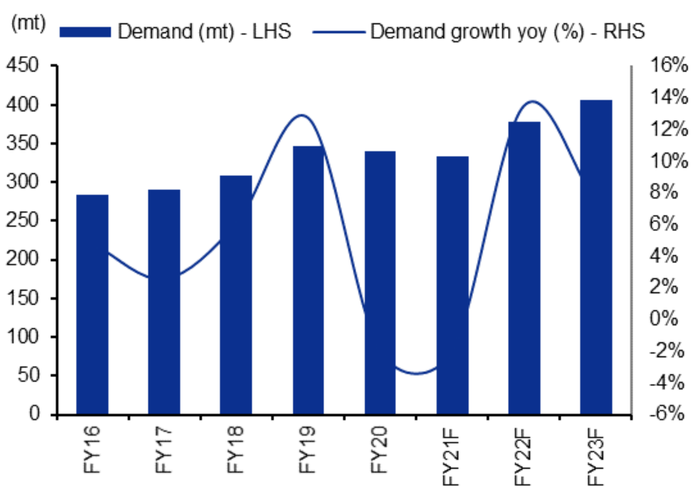
Positives abound, but priced in

Continues to outperform industry-leading volume growth

Demand recovery to continue in FY22F; SRCM volumes to grow ahead of the industry

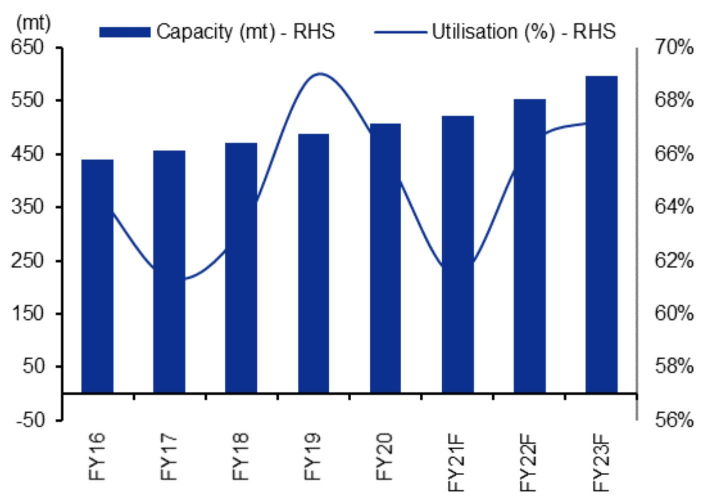
- The recovery in cement demand exceeded Street expectations over the last year and will continue to be robust in the medium to long term. Cement dispatches grew in the mid- to high-single digits cumulatively for the top 15 listed players in the last two quarters. Demand recovery has been strong in the East, Central and North India, but remains relatively weaker in the South India and in Maharashtra. We expect India's cement demand to decline by a modest 1-2% yoy in FY21F followed by 12-13%/8-9% yoy growth in FY22F/FY23F, driven by accelerating government infra capex, steady rural demand, and a turn in the urban housing cycle after an eight- to nine-year downcycle.
- SRCM's volumes grew firmly by ~18% CAGR during FY05-15, led mainly by capacity expansions. But during FY15-20, despite steady capacity growth, volume growth was marginally ahead of the industry, probably to support realisations in key markets and limited clinker in the Eastern region, in our view. However, this changed in recent months; over 9MFY21, driven by strong ramp-up in newer capacities in South and East India, SRCM's volume growth remained ahead of the industry (reported ~3.5% yoy growth vs ~6% decline for top 15 listed players).
- Now, with the commissioning of a further 6mtpa (3mtpa already commissioned) capacity by 1QFY22, we expect SRCM's cement volume growth to sustain ahead of industry growth rate. Despite the impact of COVID-19 lockdowns, we expect SRCM's cement volume to grow ~8% yoy in FY21F and further by 14%/9% yoy in FY22F/23F with the commissioning and consequent ramp-up of its newer cement capacities.

Figure 5: India's cement demand to witness ~6% CAGR over FY20-23F, led by IHB and infrastructure demand



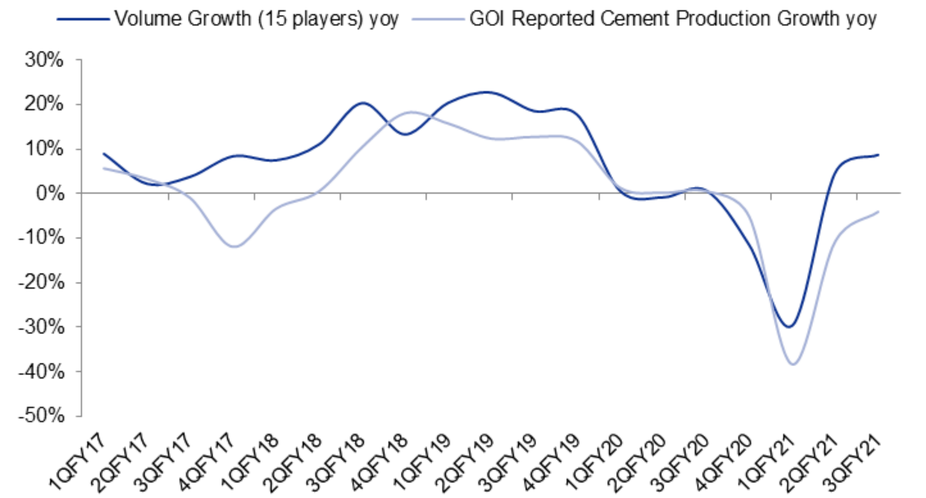
IHB = INDIVIDUAL HOUSE BUILDING
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: After declining in FY21, we expect cement industry utilisation levels to increase to ~67% in FY23F



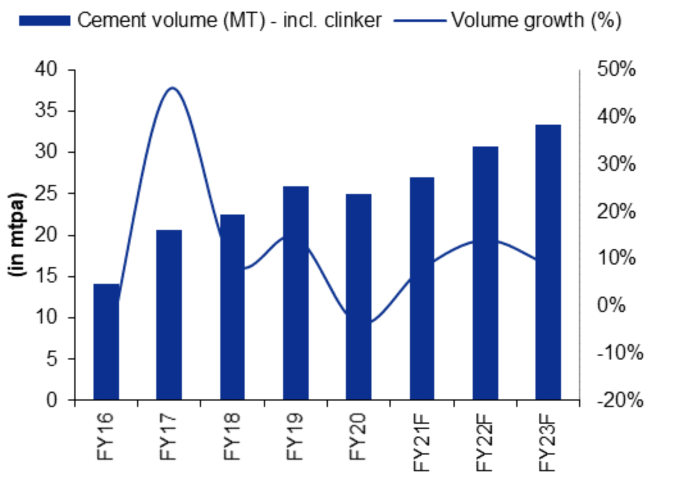
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: Cement demand recovery has been much better vs street expectation in recent quarters and GOI reported cement production growth



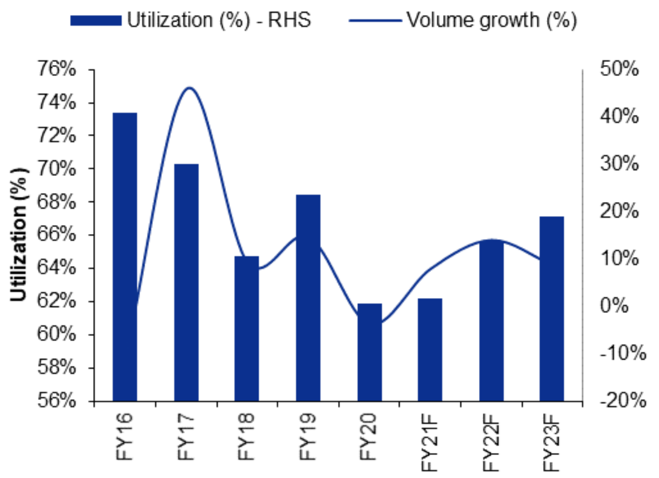
GOI = GOVERNMENT OF INDIA
SOURCES: INCRED RESEARCH, AS PER THE DEPARTMENT OF INDUSTRIAL POLICY AND PROMOTION (DIPP) DATA

Figure 8: SRCM's volume grew ahead of industry and continues to outperform, aided by robust demand and expansion



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Utilisation levels to inch up as volume to drive ~11% CAGR over FY21-23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

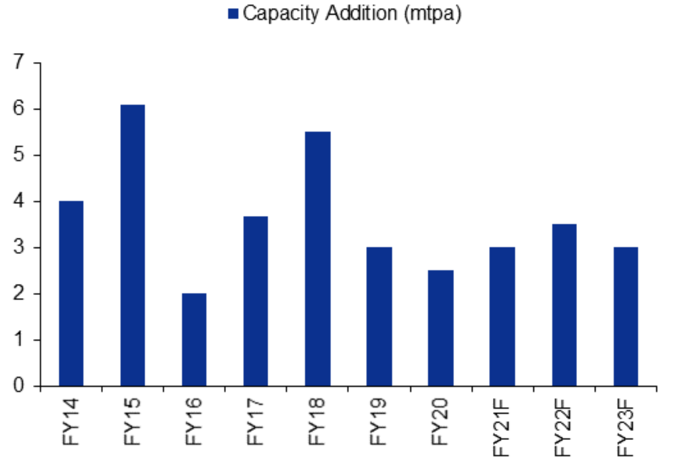
Expansion to aid volumes; new capex plans possible ›

- SRCM has successfully transformed itself from a regional player (North India) to one with a pan-India presence via aggressive and quicker organic expansions. Over the last six years, the company increased its capacity by 2.5x, from 17.5mtpa to 43.4mtpa in FY21F, by diversifying its presence in Central, East, and Southern India. The company has also diversified internationally by acquiring UAE-based Union Cement Company in FY18 (capacity: 4mtpa cement).
- SRCM has commenced commercial production at its new Cement Grinding Unit (3mtpa capacity) at Athagarh Tehsil in Cuttack, Odisha. With this expansion, SRCM's total India cement capacity increases to 43.4mtpa (24.3mtpa in North, 14.1mtpa in East, 3mtpa in South and 2mtpa in Central) as at FY21F. The company is also setting up a 3mtpa grinding unit in Patas, Maharashtra, which it expects to commission soon. With this SRCM will have exposure to all regions in India. Also, the company is setting up a clinker line 3 in the East (Raipur, in Chhattisgarh) with capacity of 12,000 tonnes per day (tpd) and management expects commissioning in the next 18-20 months at an expected capex of ~Rs9bn-10bn, which will not only support the new grinding unit (at Cuttack) but will also be important for any further grinding

capacity expansion project in the East India. SRCM will also set up a waste heat recovery system (WHRS) along with Clinker line 3.

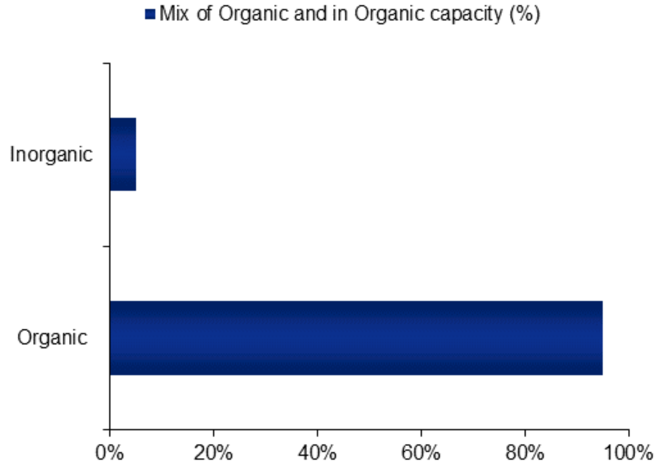
- SRCM plans to increase grinding capacity from ~40mtpa in FY20 to ~57mt within three years in Phase-I and further to ~80mtpa (double the FY20 capacity) over the next six to seven years in Phase-II.
- The company capacity utilisation in South India increased to ~65-68% recently, vs. 50% in 1Q and ~35% in FY20, leading to increased market share and brand acceptance. However, we believe SRCM is well placed to capture any faster recovery in demand, particularly in North, East and Central regions, on an expanded capacity base. Therefore, we build in ~12% volume CAGR over FY20-FY23F.

Figure 10: SRCM has aggressively added capacity in the past, and we expect this trend to continue



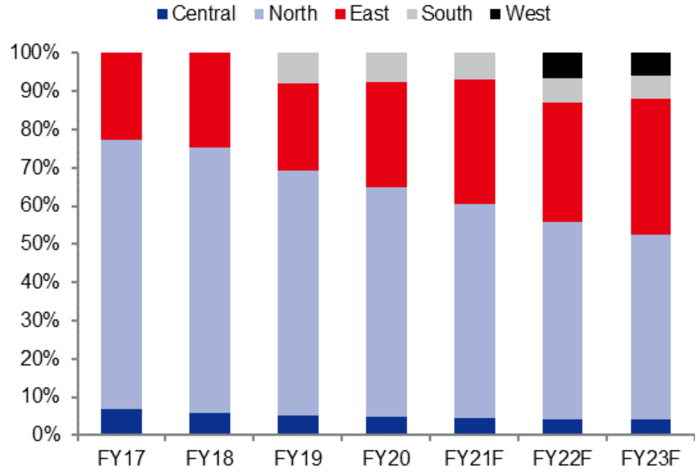
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: SRCM's capacity expansion since 2004 has been predominantly organic till date



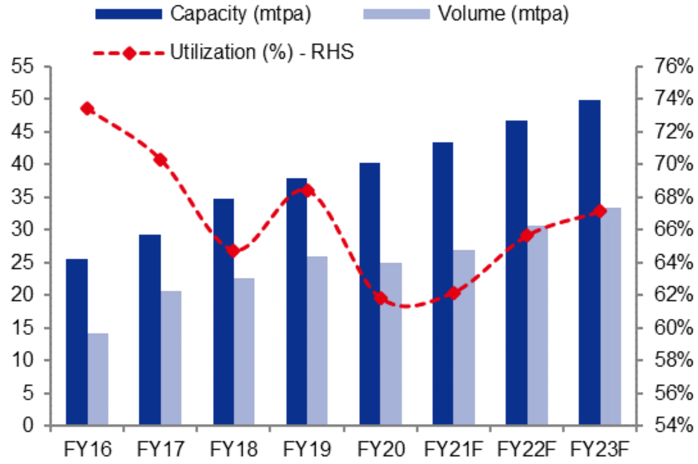
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Regional diversification to further reduce as capacity share shifting from North to East region



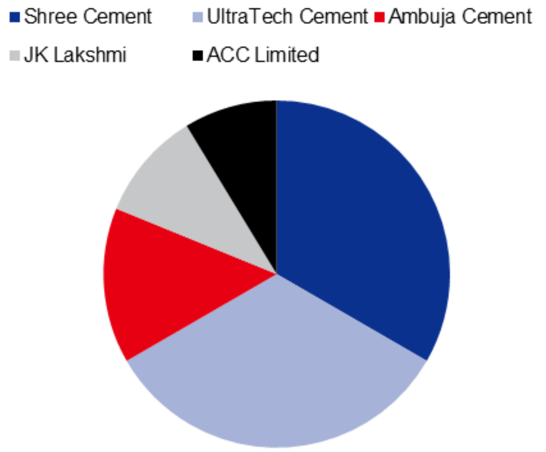
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 13: Expanded capacities to help serve existing and newer regions, likely leading to volume growth



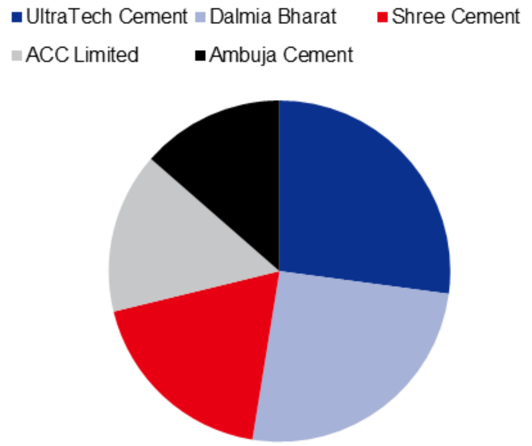
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: SRCM was the market leader in North India (Dec 2020)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 15: SRCM was 3rd largest player in East India (Dec 2020)

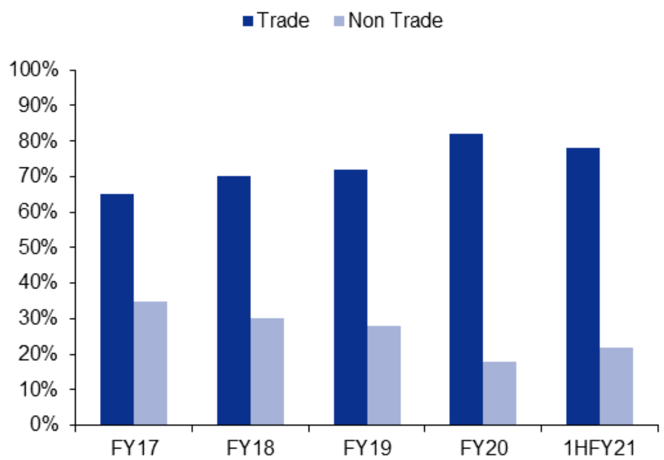


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Focus remained on improving trade mix share to help realisation

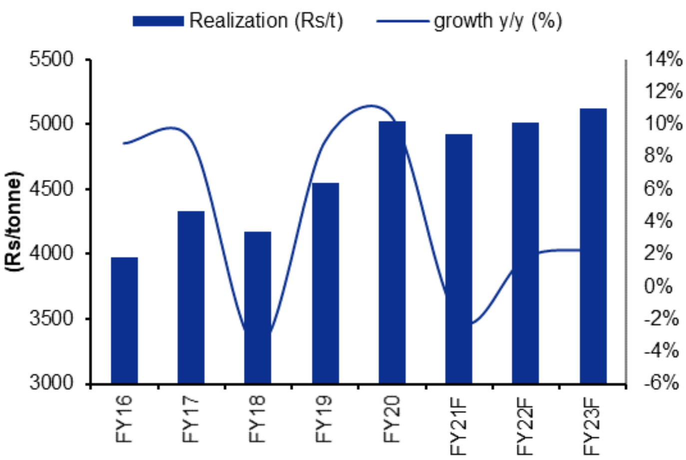
- SRCM has historically seen a higher contribution from the non-trade segment vs. other peers – a key reason for its higher-than-average industry volume growth over the last four to five years. However, management has further enhanced its focus on the trade segment and has been launching newer brands with value-added products in the market, priced ~Rs10-20/ bag higher than its existing brands. We believe this should lead to an overall improvement in blended realisations going forward.
- We note that cement prices have remained firm so far in FY21F as companies have increased their focus on margins over market share gains. As per our channel checks, cement prices started increasing from Mar 2021, and with rising cost inflation we expect cement companies to announce further price hikes soon. However, our channel checks indicate there has been meaningful increase in cement prices so far in Mar-Apr 2021 despite strong demand. Given SRCM's focus on growth and upcoming expansions in the East and West, we factor in a lower realisation CAGR of ~0.7% over FY20-FY23F.

Figure 16: Proportion of trade segment increased gradually, while mix recently shifted to non-trade to serve project demand



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 17: Realisation growth could lag general price hikes as SRCM re-aligns focus on increasing volume



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Already efficient and bottom of the cost structure; limited room for cost savings

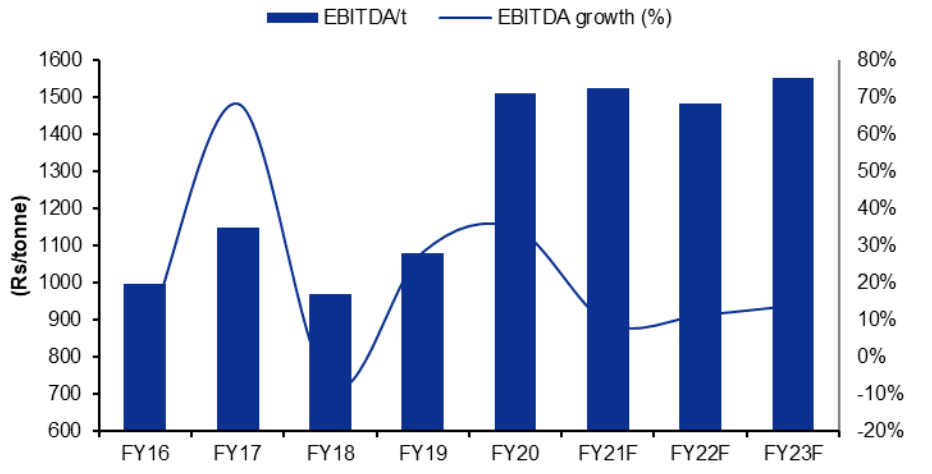
Sustainable realisations to improve unitary EBITDA gradually, but incremental cost savings appear murky at present ➤

- SRCM remains one of India's lowest-cost cement producers. Despite lower realisations among comparable peers, the company has been able to generate higher margins and improve profitability due to (a) an efficient cost structure, especially in energy consumption and power usage, and (b) savings on freight, with lower lead distances due to its strategy of installing grinding units closer to end markets.
- SRCM's realisations/t are lower vis-à-vis top players as it is not able to command the same premium as pan-India brands and sells at ~Rs15-20/bag lower. Despite this, the company has one of the highest EBITDA/t in the industry due to its highly efficient cost structure.
- We believe these cost advantages are sustainable due to better plant efficiency, locational advantages and continued higher investments in low-cost power generation, but the scope of any incremental cost savings appear to be limited due to the recent rise in input costs.

Rising input costs to impact blended EBITDA/t in FY22F ➤

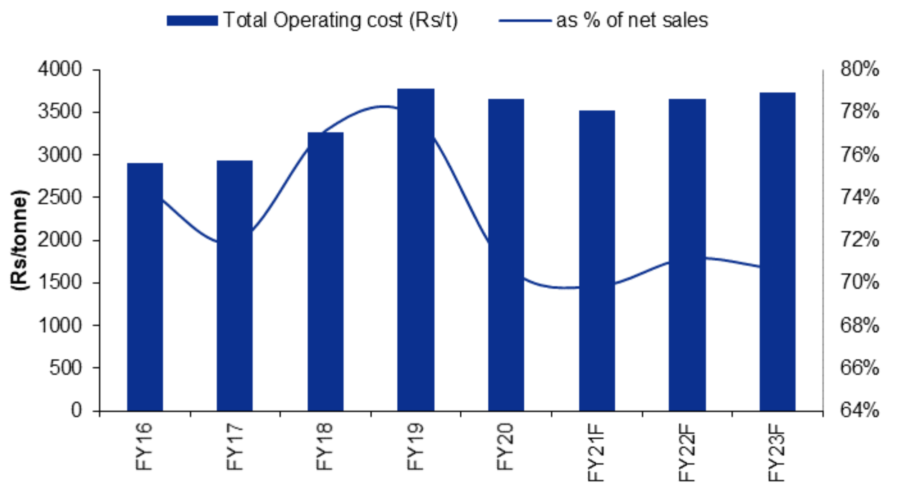
- The recent ~45-50% increase in pet coke prices has so far been managed through an available lower fuel inventory and shift to the use of imported coal. But with the lower-cost inventory now exhausted and coal prices trending similarly to those of pet coke, SRCM's power and fuel (P&F) costs should see a Rs150-200/t increase from 1HFY22F. WHRS already accounts for ~40% of the power mix across the entire portfolio. SRCM will also set up WHRS along with Clinker line 3 at Chhattisgarh, but there seems to be limited scope for further WHRS addition.
- SRCM also has the lowest freight cost/t among comparable peers due to higher transportation share by road (~90%), strategic location of grinding units closer to end markets and maximising the throughput of trucks via a competitive online bidding system. The company has been a pioneer in adopting split grinding, facilitating wider reach and providing superior services to distributors, even as its average lead distance tends to be higher (440-460kms) vs. competition. SRCM's overall cement-clinker ratio is ~1.45x in FY20; hence, transporting 1mtpa of clinker for grinding closer to end-use markets is more economical than transporting ~1.5mtpa of cement.
- We think an increase in diesel rates in FY21F should increase raw material and freight expenses by ~4% in FY22F. We believe absorption of other overheads can marginally offset the increase in variable costs. SRCM is already efficient and at the bottom of cost structures and, therefore, has limited room to offset any increase in costs. Driven by higher per-unit opex and sustainable blended realisation assumptions, we estimate unitary EBITDA for FY21F should settle flat to FY20 and steep correction in FY22F. We expect SRCM's consolidated EBITDA/t to rise to Rs1,550 by FY23F from Rs1,508 in FY20.

Figure 18: EBITDA/t to improve gradually with sustainable realisations



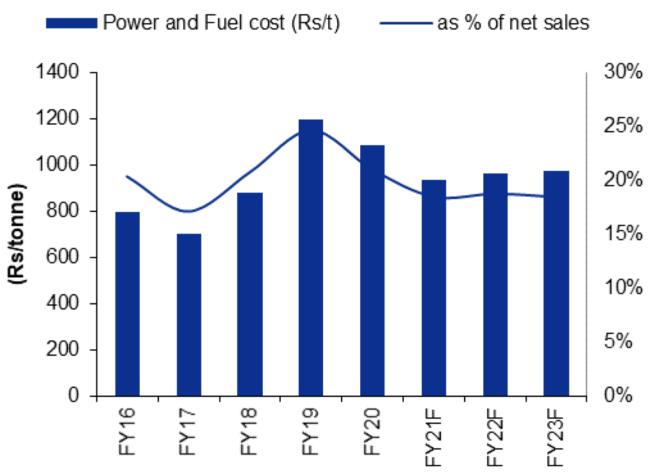
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 19: Cost savings to be limited due to higher variable costs (increased cost inflation)



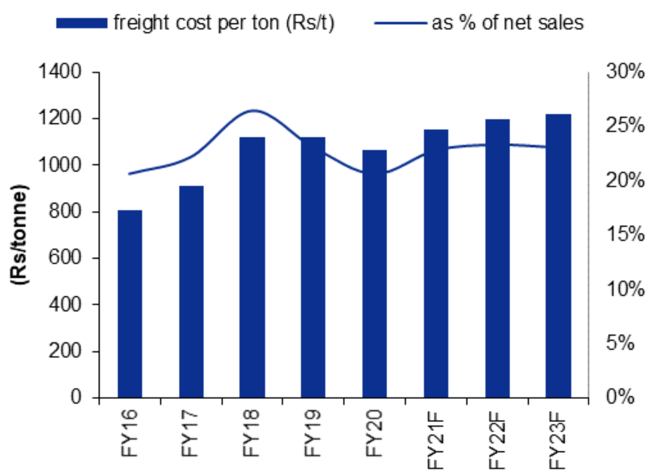
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 20: P&F costs to rise in FY22F amid higher input costs



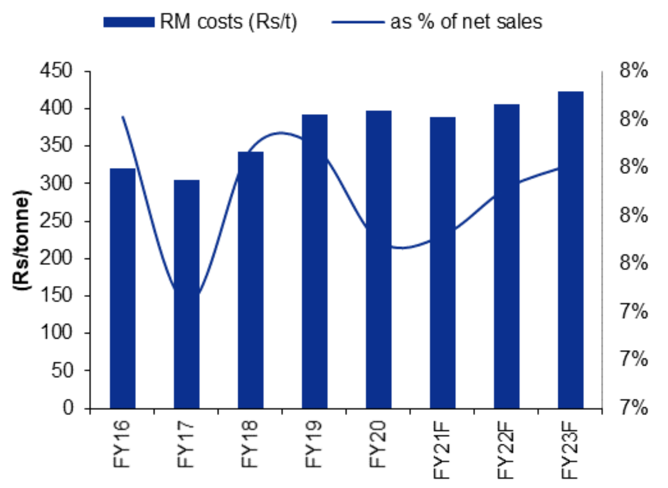
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 21: Freight costs will increase due to higher diesel prices



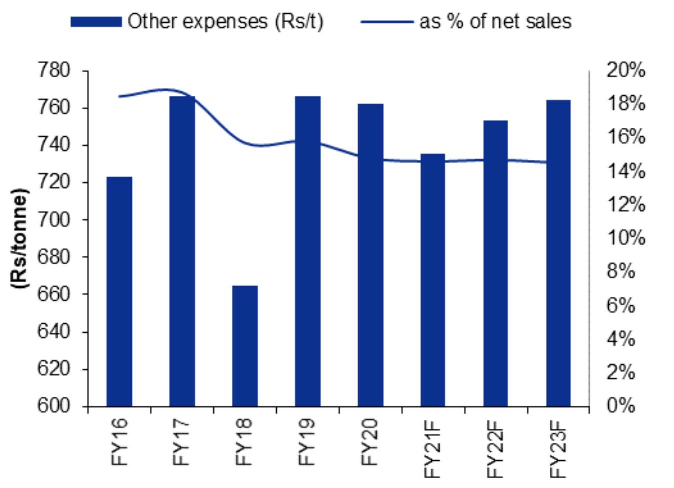
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 22: Raw material costs to increase as volume grows



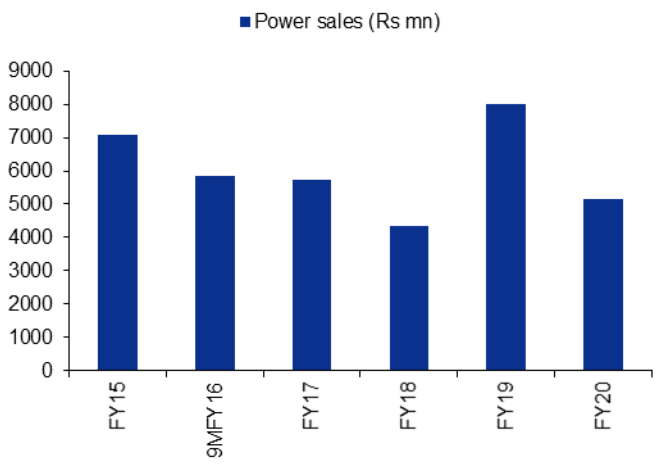
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 23: Other expenses to be controlled in medium term



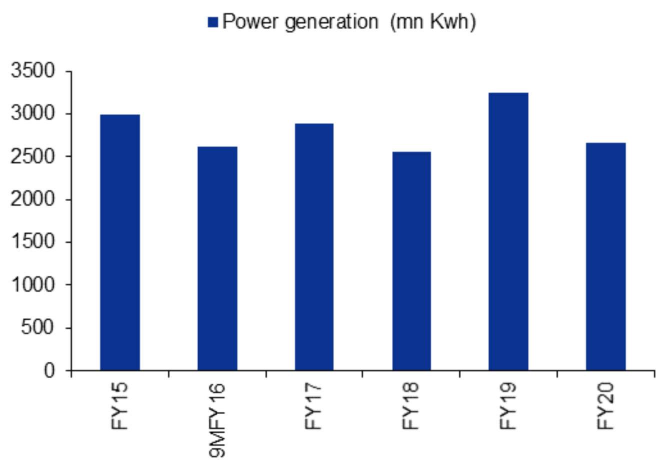
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 24: Power business revenue trend – SRCM stopped sharing power division revenue separately from 2QFY21



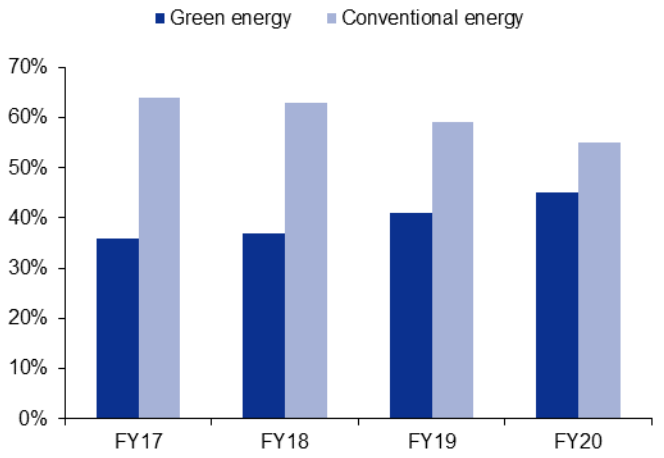
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 25: Power generation trend



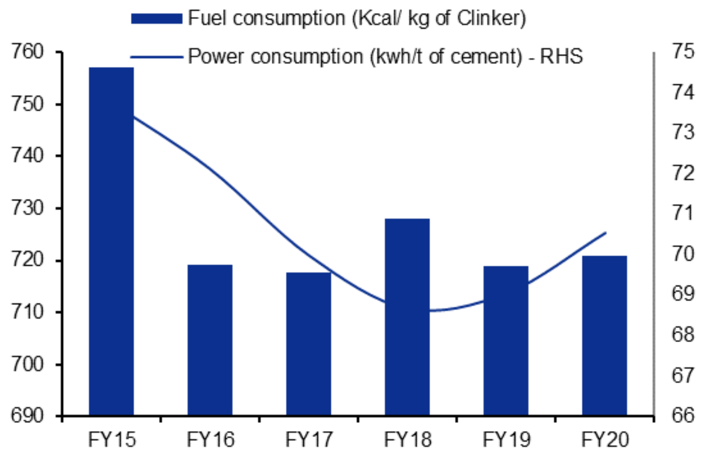
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 26: SRCM's share of green power (%)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 27: SRCM's power and fuel consumption trend



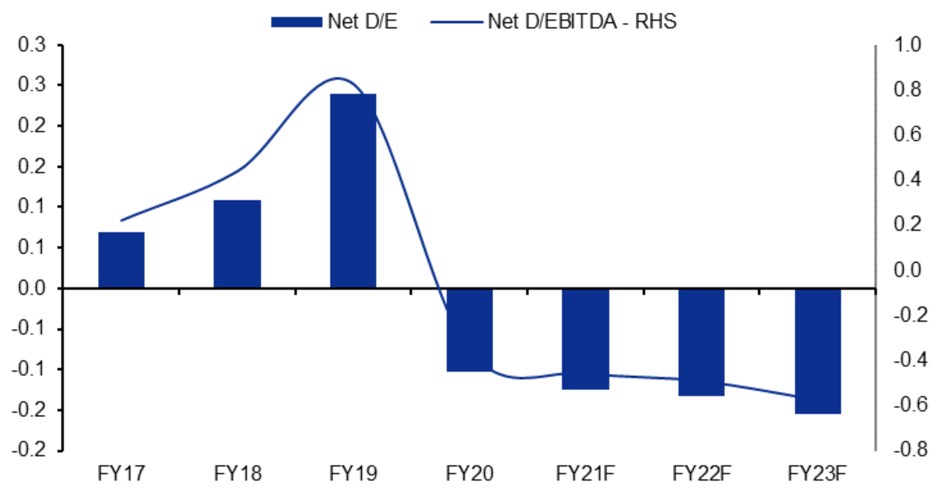
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Strong balance sheet, superior return ratios; positive cashflow to fund future capex

Rising profitability would strengthen balance sheet further ➤

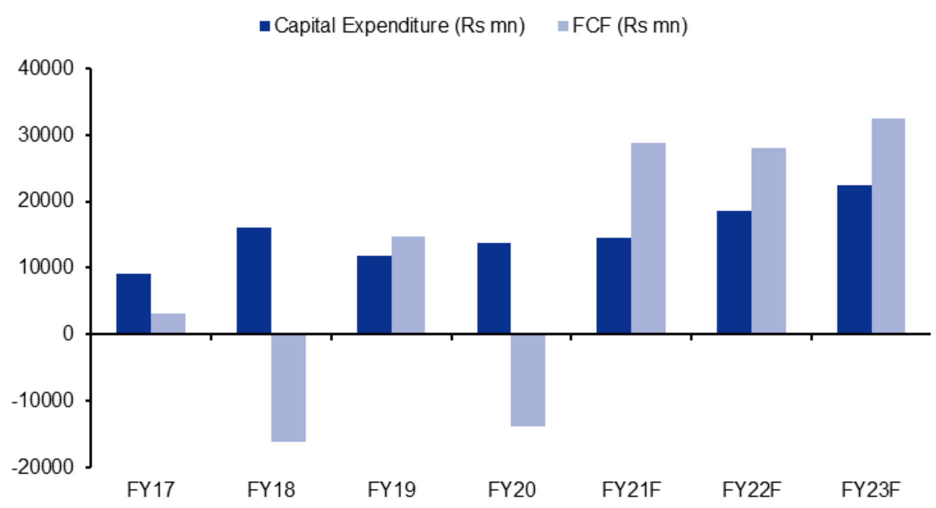
- SRCM has generated strong operating cashflows over the years, and comfortably funded past expansions largely from internal accruals. Its net D/E ratio stands at -0.16x and net D/EBITDA at -0.5x.
- As on Sep 2020, SRCM had a cash balance of Rs40.4bn, which lends strength to the balance sheet. Rising profitability should result in healthy free cashflow and a strengthened balance sheet, in our view. We expect the company to have a capex of Rs50bn over FY21-23F to provide for ongoing projects. This would result in free cashflow generation of c.Rs35bn-40bn annually over the next three years ending FY23F. In FY20, SRCM raised Rs24bn through a qualified institutional placement (QIP), of ~3.6% equity dilution, to accelerate its growth plans.

Figure 28: Net D/E and to EBITDA to remain under control going ahead, in our view



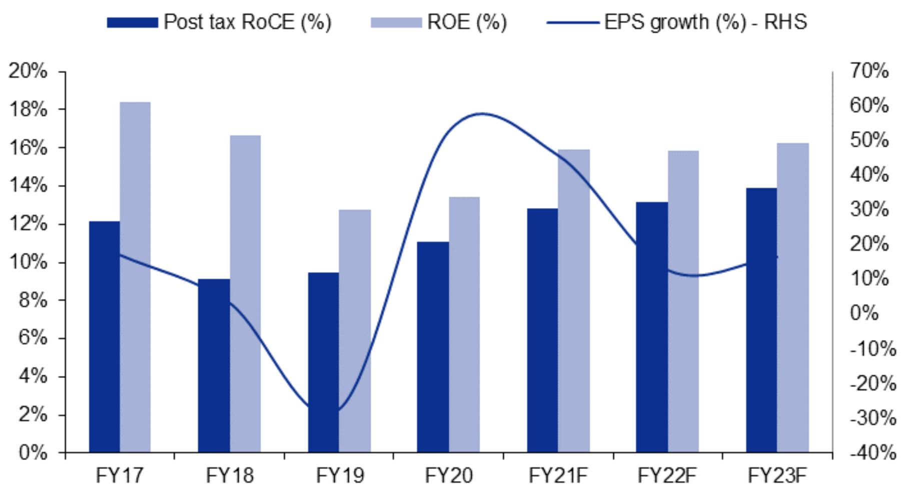
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 29: We expect strong FCF generation over FY21F-23F and capex plan is likely to be revised in near term



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 30: RoCE and RoE likely to improve steadily, in our view



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Initiate with Reduce rating & FY23F TP of Rs25,799

Valuation

- We believe SRCM is one of the best cement companies in India given its advantages over its peers on low operating costs, managing capex and balance sheet. As with UTCEM, SRCM will outperform industry volume growth on strong organic capacity expansion – we expect volume growth of ~15% CAGR with present unitary EBITDA of >Rs1,500/t sustaining over FY21-23F).
- SRCM currently trades at a one-year forward EV/EBITDA of 22x, a ~25% premium to its recent five- and nine-year averages of 17.5x. However, we believe current valuations after the recent run-up in stock limit further upside potential.
- SRCM's valuation premium over UTCEM has been contracting and we expect it to shrink further as volume growth recovers. Historically, we have seen SRCM's premium to UTCEM compress with volume growth improving. The stock has been trading at peak EV/EBITDA on EBITDA/t. We believe in the backdrop of earnings uncertainty amid potential pricing disruption in North India, the stock can come under pressure. We see least margin of safety at current valuations.
- At CMP of Rs27,475 SRCM is trading at 21.1x/18.5x FY22F/23F EV/EBITDA, we see current valuations more than factor in SRCM's superior growth and returns. At the current expensive valuations, any disappointment in earnings is likely to drive the stock's underperformance. Hence, we initiate coverage on the company with Reduce rating and target price of Rs25,799 set at 16.5x FY23F EV/EBITDA. We believe a premium (ascribed multiple of 16.5x) to peers is warranted, given SRCM's better-than-peer returns profile.

Figure 31: Our Target price of Rs25,799 is based on 16.5x FY23F EV/EBITDA

Valuation	**TP**
Target EV/EBITDA (x)	16.5
Target EV (Rsm)	8,54,753
Net debt (Rsm)	(56,065)
No. of shares (m)	36
UAE plant @ book value (Rs m)	20,000
Value per share	554
Fair value per share (Rs)	**25,799**

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 32: We value the stock at 16.5x FY23F EV/EBITDA to arrive at Rs25,799 TP

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 33: SRCM trading at P/BV at c.5.1x for FY23F

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Risks

Downside risks

- Any further slowdown in cement demand. Cement demand growth was badly impacted in 4QFY21 and 1QFY21 due to the COVID-19 pandemic. Any prolonged slowdown in general construction activities across the country might impact SRCM's volume growth.
- A demand slump in the key market of North India could impact the company's volume growth.
- Any correction in cement prices/ further rise in input costs sustaining over the medium term will likely hit realisations and EBITDA/t.
- Delay in the ramp-up of new capacities and expansions.

Upside risks

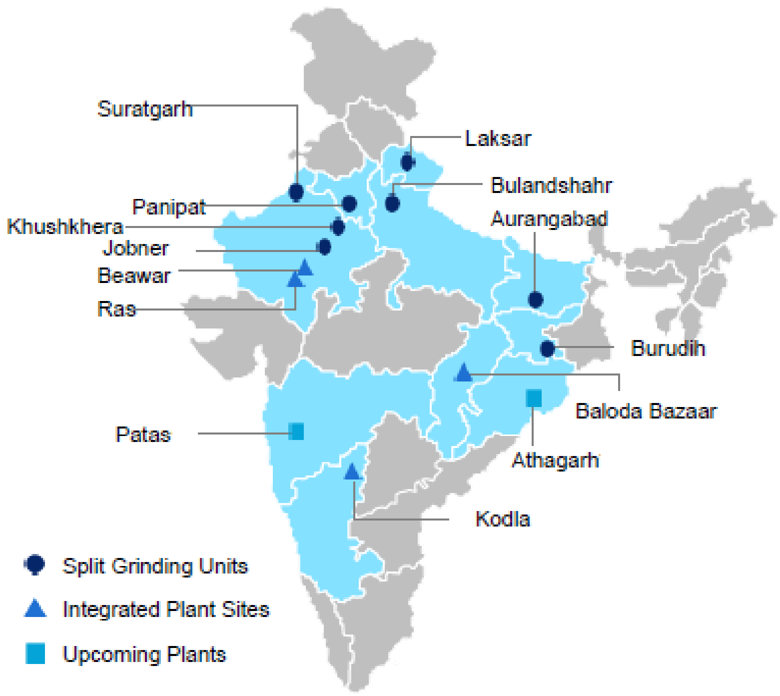
- Better-than-expected demand and pricing growth.
- Significant cost reductions and lower raw material costs providing better-than expected EBITDA/t.
- SRCM had earlier indicated expansions of up to 57mtpa by FY24 and 80mtpa by FY26, which suggest fresh announcements on new expansions could be positive for the company.

Company brief and management profile

Company background

- SRCM is the second-largest cement player in India and largest player in North India in terms of cement capacity. The company started production in 1985 and increased its total annual cement capacity to 43.4mtpa as on FY21. The company is a dominant competitor in North India markets with a presence in East, South and Central India as well. Cement remains its core business. SRCM has ~23% of the capacity share in North India and is ramping up its presence in East India. SRCM recently commenced GU of 3mtpa at Athagarh Tehsil in Cuttack, Odisha. With this expansion, total India cement capacity increases to 43.4mtpa (24.3mtpa in North, 14.1mtpa in East, 3mtpa in South and 2mtpa in Central). The company is also setting up a 3mtpa grinding unit in Patas, Maharashtra, which it expects to commission soon. With this, SRCM will have exposure to all regions in India.
- The company markets its products through three brands: Shree Ultra, Bangur Cement and Rock Strong Cements. In FY19, it launched two premium cement brands Roofon and Bangur Power. As at 30 Sep 2019, it had a strong pan-India distribution network of 20,250 dealers and 746 distributors.
- SRCM has a coal power plant, WHR plants and renewable power units. Its total power capacity in India stood at 742MW, which includes 234MW capacity of renewable energy power plants – one of the highest in the industry.
- SRCM maintained its specific thermal energy consumption at 721kcal/kg of clinker in FY20 (719kcal/kg in FY19), and increased the share of green power by 400bp yoy to 45%.
- All SRCM's plants are multi-fuel capable as pet coke or coal provide SRCM the flexibility to adjust the cost of generation based on availability and prices of fuel.
- The company has an overseas cement asset in the UAE, with installed cement capacity of 4mtpa.
- In FY20, SRCM raised Rs24bn through a QIP at Rs19,300/share (~3.6% equity dilution) to accelerate its growth plans.

Figure 34: SRCM has close proximity to customers in all India markets



SOURCES: INCRED RESEARCH, SRCM CORPORATE PRESENTATION

SRCM's milestone

Figure 35: Journey of SRCM from incorporation

1979	**Incorporation of Company**
1984	IPO
1985	Installed first integrated cement plant of 0.6mtpa at Beawar, Rajasthan
1995	Increased Beawar cement capacity from 0.6mtpa to 1.36mtpa
1997	Installed new 1.24mtpa integrated cement plant at Beawar, raising the total Beawar capacity to 2.6mtpa
2003	Commissioned 36MW captive power plant (CPP) at Beawar
2005	Beawar CPP capacity increased from 36MW to 44MW
2006	Commissioned two integrated cement plants of 1.5mtpa each at Ras, Rajasthan
2007	Commissioned 3.5mtpa cement grinding unit at Khushkhera; 2.2mtpa clinker capacity & 18MW CPP at Ras
2008	Commissioned 21MW WHRP at Beawar
2009	Increased Ras clinker capacity by 1mtpa completing unit-VII in record time of 367 days
2010	Increased overall power capacity to 210MW (including 46MW WHRP) by increasing capacity at Ras to 122MW and also commissioning a 25MW WHRP
	Installed new 1.2mtpa cement capacity at Suratgarh, Rajasthan
	Installed new 1.8mtpa cement capacity at Roorkee, Uttarakhand
2011	Installed new 1.5mtpa cement capacity at Jobner, Rajasthan
	Increased Beawar CPP capacity from 44MW to 194MW
2012	Beawar CPP capacity increased from 194MW to 344MW
2013	Increased clinker capacity at Ras by 2mtpa making it the largest clinker capacity at a single location; increased WHRP capacity by 10MW at minimal cost
2014	Increased clinker, cement and WHRP capacity at Ras by 2mtpa, 2mtpa and 25MW WHRP respectively
	Installed new 2mtpa cement capacity at Aurangabad, Bihar
2015	Installed new 2.6mtpa cement and 1.5mtpa clinker capacity at Raipur, Chhattisgarh
	Increased cement capacity at Ras to 7mtpa by adding an additional grinding unit of 2mtpa
	Increased WHRP capacity by 15MW resulting in a total WHRP capacity of 96MW
	Acquired 1.5mtpa cement unit at Panipat, Haryana
2016	Commissioned 15MW WHRP at Raipur
	Installed 2mtpa cement unit at Bulandshahr, Uttar Pradesh
2017	Aurangabad cement capacity increased from 2mtpa to 3.6mtpa
	Debottlenecking activities increased grinding unit capacities at Beawar, Suratgarh and Raipur to 3.6mtpa, 1.8mtpa and 3mtpa, respectively, taking total cement capacity to 29.3mtpa
2018	Cement capacity reached 34.9mtpa with the commissioning of the grinding units at Sri Ganganagar, Rajasthan & Bihar
	21MW wind power generation unit started in Karnataka of which 14.7MW was commissioned in 2017-18, and the rest in 2018-19; WHR capacity increased from 111MW to 126MW
	Acquired Raipur Handling and Infrastructure Pvt Ltd for Rs59 crore
	Commissioned 3mtpa cement mill at Gulbarga, Karnataka
	Completed acquisition of majority stake (97.6%) in Union Cement Company (UCC) in UAE
	Cement capacity reached 41.9mtpa (including UAE capacity)
2019	Commissioned an integrated unit with 2.8mtpa clinker capacity and 3.0mtpa cement capacity at Kedla district in Karnataka.
2020	Commissioned GU of 2.5mtpa capacity at Seraikela-Kharsawan district, Jharkhand
2021	Commenced commercial production at its new Cement Grinding Unit (with 3mtpa capacity) at Athagarh Tehsil in Cuttack, Odisha.
	With this expansion, Shree Cement's total India cement capacity increases to 43.4mtpa (24.3mtpa in North, 14.1 mtpa in East, 3mtpa in South and 2mtpa in Central).

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Region-wise capacity of SRCM's plant ➤

Figure 36: Plant-wise capacity details

Region	Plant location	Region/ location	Cement capacity (mtpa)*	Clinker capacity (mtpa)*
North India	Ras#	Rajasthan	7	15
North India	Khushkhera	Rajasthan	3.5	-
North India	Beawar#	Rajasthan	3.6	3
North India	Jobner	Rajasthan	1.5	-
North India	Suratgarh	Rajasthan	5.4	-
North India	Laksar	Uttarakhand	1.8	-
North India	Panipat	Haryana	1.5	-
Total Capacity in North India			**24.3**	**18**
Central India	Bulandshahr	UP	2	-
Total Capacity in Central India			**2**	**-**
East India	Baloda Bazar#	Chhattisgarh	3	5.2
East India	Burudih	Jharkhand	2.5	-
East India	Aurangabad	Bihar	5.6	-
East India	Athagarh	Odisha	3	-
Total Capacity in East India			**14.1**	**5.2**
South India	Kodla#	Karnataka	3	2.4
Total Capacity in South India			**3**	**2.4**
Total Capacity in India			**40.4**	**25.6**
Overseas				
Middle East	**Ras Al Khaimah**	**UAE**	**4**	**3.3**
Total Current Capacity			44.4	28.9
Expected Capacity Additions				
West India^	Patas	Maharashtra	3	-
Expected Capacity by FY21			50.4	28.9

SOURCES: INCRED RESEARCH, COMPANY REPORTS
** AS OF DEC 2020. | # INTEGRATED UNITS | ^ EXPECTED IN FISCAL 21*

Figure 37: Multi brand strategy with a strong dealer and distribution network

SOURCES: INCRED RESEARCH, COMPANY REPORTS

SWOT Analysis

Figure 38: Shree Cement Limited

Strength	Weakness
Leadership position in North India. Low-cost leadership vs peers. Strong financial profile.	Prolonged slowdown in general construction activity across the country. Further increase in input costs. Any backdrop in cement prices.
Opportunity	**Threat**
Expanding capacity to gain further market share.	Delay in aforesaid capacity expansion. Market share loss.

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Key management profiles

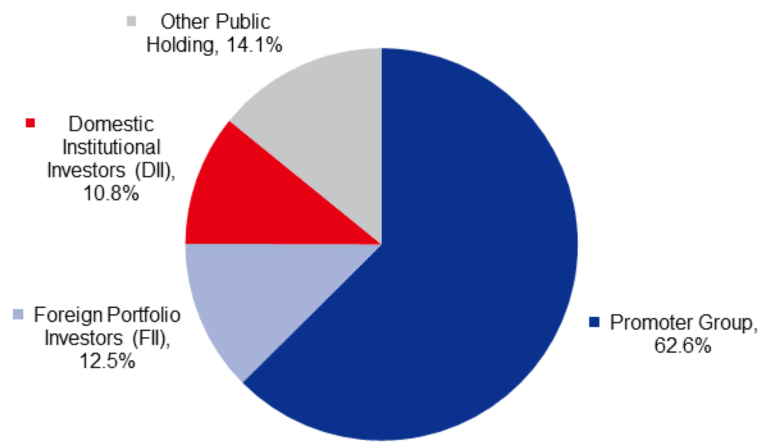
- Currently, the company's board comprises 11 members, of which seven are independent directors, three are promoters, and one a professional director. We note that of the seven independent directors, five have been associated with the company/management for over five years.

Figure 39: Key board members

Names	Designation
Shri Benu Gopal Bangur	Chairman
Shri Hari Mohan Bangur	Managing Director
Shri Prashant Bangur,	Joint Managing Director
Shri R. L. Gaggar	Independent Director
Dr. Y. K. Alagh	Independent Director
Shri O. P. Setia	Independent Director
Shri Shreekant Somany	Independent Director
Shri Nitin Desai	Independent Director
Ms. Uma Ghurka	Independent Director
Shri Sanjiv Krishnaji Shelgikar	Independent Director
Shri P. N. Chhangani	Whole-time Director

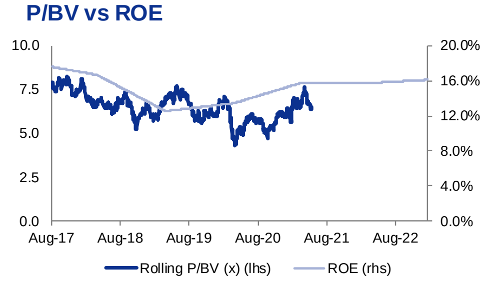
SOURCES: INCRED RESEARCH, COMPANY REPORTS

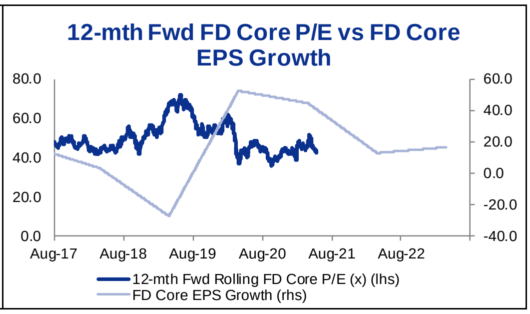
Figure 40: Shareholding pattern (as at 31 Mar 2021)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Net Revenues	**1,25,547**	**1,28,684**	**1,35,824**	**1,57,784**	**1,76,382**
Gross Profit	**1,25,547**	**1,28,684**	**1,35,824**	**1,57,784**	**1,76,382**
Operating EBITDA	**27,937**	**37,591**	**40,983**	**45,541**	**51,803**
Depreciation And Amortisation	(14,718)	(18,078)	(12,655)	(13,667)	(14,760)
Operating EBIT	**13,219**	**19,513**	**28,328**	**31,874**	**37,043**
Financial Income/(Expense)	(2,479)	(2,914)	(2,565)	(2,488)	(2,363)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,498	2,744	4,390	4,654	5,026
Profit Before Tax (pre-EI)	**13,238**	**19,343**	**30,154**	**34,040**	**39,706**
Exceptional Items	(1,781)				
Pre-tax Profit	**11,456**	**19,343**	**30,154**	**34,040**	**39,706**
Taxation	(1,306)	(3,902)	(7,840)	(8,850)	(10,323)
Exceptional Income - post-tax					
Profit After Tax	**10,151**	**15,441**	**22,314**	**25,190**	**29,382**
Minority Interests	(87)	(82)	(82)	(82)	(82)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**10,064**	**15,359**	**22,232**	**25,108**	**29,300**
Recurring Net Profit	11,642	15,359	22,232	25,108	29,300
Fully Diluted Recurring Net Profit	**11,642**	**15,359**	**22,232**	**25,108**	**29,300**

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
EBITDA	27,937	37,591	40,983	45,541	51,803
Cash Flow from Invt. & Assoc.					
Change In Working Capital	11,063	(10,977)	(8,133)	(6,921)	(3,613)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	2,498	2,744	4,390	4,654	5,026
Other Operating Cashflow	(17,118)	17,190	17,190	17,190	17,190
Net Interest (Paid)/Received	(2,479)	(2,914)	(2,565)	(2,488)	(2,363)
Tax Paid	(1,306)	(3,902)	(7,840)	(8,850)	(10,323)
Cashflow From Operations	**20,595**	**39,732**	**44,025**	**49,126**	**57,720**
Capex	(11,914)	(13,830)	(14,500)	(18,500)	(22,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	3,787	(42,158)	(2,533)	(4,500)	(4,500)
Cash Flow From Investing	**(8,126)**	**(55,987)**	**(17,033)**	**(23,000)**	**(27,000)**
Debt Raised/(repaid)	(7,591)	1,175	(2,500)	(3,000)	(4,500)
Proceeds From Issue Of Shares		23,812	(164)	(164)	(164)
Shares Repurchased					
Dividends Paid	(2,308)	(6,284)	(4,573)	(5,165)	(6,027)
Preferred Dividends					
Other Financing Cashflow	(2,753)	(2,893)	(17,108)	(17,108)	(17,108)
Cash Flow From Financing	**(12,653)**	**15,811**	**(24,345)**	**(25,437)**	**(27,799)**
Total Cash Generated	(184)	(445)	2,647	689	2,920
Free Cashflow To Equity	**4,877**	**(15,080)**	**24,493**	**23,126**	**26,220**
Free Cashflow To Firm	**14,947**	**(13,341)**	**29,557**	**28,614**	**33,083**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Cash And Equivalents	4,720	37,005	39,653	40,342	43,262
Total Debtors	10,237	10,805	10,792	12,536	14,014
Inventories	18,703	17,135	18,234	21,614	24,162
Total Other Current Assets	13,532	13,994	13,854	17,198	19,226
Total Current Assets	**47,192**	**78,938**	**82,532**	**91,691**	**1,00,664**
Fixed Assets	61,817	61,630	62,976	67,308	74,548
Total Investments	22,529	32,713	33,213	33,713	34,213
Intangible Assets	11,295	11,967	14,000	18,000	22,000
Total Other Non-Current Assets	12,098	14,193	14,693	15,193	15,693
Total Non-current Assets	**1,07,738**	**1,20,503**	**1,24,881**	**1,34,214**	**1,46,454**
Short-term Debt	4,727	7,102	6,602	5,602	4,602
Current Portion of Long-Term Debt					
Total Creditors	5,382	6,577	6,208	7,138	7,904
Other Current Liabilities	11,157	20,401	13,582	14,201	15,874
Total Current Liabilities	**21,266**	**34,079**	**26,392**	**26,941**	**28,381**
Total Long-term Debt	23,090	16,387	14,387	12,387	8,887
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	13,242	16,593	16,593	16,593	16,593
Total Non-current Liabilities	**36,332**	**32,980**	**30,980**	**28,980**	**25,480**
Total Provisions					
Total Liabilities	**57,598**	**67,059**	**57,372**	**55,921**	**53,861**
Shareholders Equity	96,708	1,31,694	1,49,353	1,69,296	1,92,569
Minority Interests	625	688	688	688	688
Total Equity	**97,332**	**1,32,382**	**1,50,041**	**1,69,984**	**1,93,257**

Key Ratios

	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue Growth	31.6%	2.5%	5.5%	16.2%	11.8%
Operating EBITDA Growth	28.2%	34.6%	9.0%	11.1%	13.8%
Operating EBITDA Margin	22.3%	29.2%	30.2%	28.9%	29.4%
Net Cash Per Share (Rs)	(640.16)	374.61	517.28	619.53	825.20
BVPS (Rs)	2,680.36	3,650.06	4,139.50	4,692.24	5,337.28
Gross Interest Cover	5.33	6.70	11.05	12.81	15.67
Effective Tax Rate	11.4%	20.2%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	21.3%	25.8%	20.6%	20.6%	20.6%
Accounts Receivables Days	21.56	29.84	29.02	26.98	27.47
Inventory Days	50.00	50.83	47.52	46.09	47.36
Accounts Payables Days	23.66	23.96	24.60	21.70	22.04
ROIC (%)	11.9%	19.0%	24.7%	24.4%	25.4%
ROCE (%)	10.7%	13.9%	17.3%	17.8%	18.8%
Return On Average Assets	9.4%	10.4%	12.2%	12.8%	13.4%

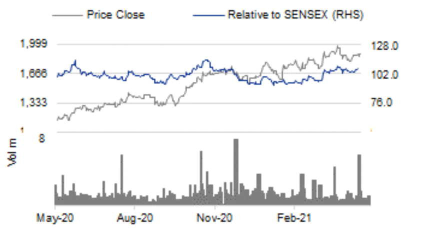
SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

HOLD *(Initiating coverage)*

Consensus ratings*:	Buy 32 Hold 5 Sell 6
Current price:	Rs1,940
Target price:	Rs2,074
Previous target:	NA
Up/downside:	6.9%
InCred Research / Consensus:	-1.5%
Reuters:	ACC.NS
Bloomberg:	ACC IN
Market cap:	US$4,988m
	Rs3,64,298m
Average daily turnover:	US$32.9m
	Rs2401.6m
Current shares o/s:	188.0m
Free float:	45.5%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.1	8.5	71.0
Relative (%)	(1.5)	10.0	2.9

Major shareholders	% held
Promoter & Promoter Group	54.5
Life Insurance Corporation of India	5.8
Franklin India Bluechip Fund	1.9

ACC Ltd

Only a few positives left

- ACC is one of India's oldest cement companies and the third largest by size. Its Ametha expansion should help protect market share going forward.
- Capacity constraints limit volume growth acceleration relative to peers, in our view. ACC's cost-saving initiatives (MSA and Parvat) are working well.
- We forecast volume/realisation/EBITDA/t CAGR of ~8%/0%/4% respectively over CY20-CY23F. Initiate coverage with a Hold rating and TP of Rs2,074.

Modest capacity addition to keep volumes flat in mid term

ACC saw volume growth of only ~2.4% CAGR over CY16-20 (below industry average) due to capacity constraints and lately due to the COVID-19 outbreak. We expect new capacity addition (4.8mtpa of cement and 2.7mtpa of clinker in Central India) to get delayed and completion by CY24F – and in that respect we believe capacity constraints will limit ACC's ability to maintain volume share over the next couple of years. We believe ACC's volume growth would continue to lag peers which have already expanded capacities. Consequently, we think ACC will not be able to take major advantage of any strong uptick in demand and build in ~8% volume CAGR over CY20-CY23F.

Rising input costs to negate incremental cost savings in near term

Historically, ACC has seen a higher cost structure than its peers, leading to lower profitability. In the last two years, ACC's cost structure has remained resilient vs peers as it improved efficiency in power and logistics through its project Parvat and the master supply chain agreement (MSA). However, the recent surge in input costs suggests a higher bar for incremental savings for ACC. It continues to focus on new product launches in the premium categories, increasing the share of blended cement to improve margins. We expect ACC's cement unitary EBITDA to rise to Rs1,017/t by CY23F from Rs899/t in CY20.

Balance sheet remains strong over the years

ACC's balance sheet remains strong and carries net cash of ~Rs60bn as of CY20. Due to such a high cash position, ACC's RoE and RoIC have remained depressed, but in line with the industry average. We estimate ~Rs14bn annual capex for ACC in CY21F-CY22F which includes maintenance capex, waste heat recovery system (WHRS) at Jamul, Ametha and Kaimor and greenfield/brownfield expansion in Central India.

Any correction could be an opportunity, initiate with Hold rating

Currently, ACC trades at a one-year forward EV/EBITDA of 10x, In line to its three-year average. It does not have the best cost structure and proportionate long-term growth opportunities to allow trade at rich valuations. We initiate coverage on ACC with a Hold and Rs2,074 TP set at 10x March 2023F EV/EBITDA in line with its historical median and at a discount to large-cap peers. Downside risk: Any prolonged slowdown in demand recovery in its key market, delay in commissioning new capacities and rollback of cement prices. Upside risk: announcement of new capex, better-than-expected demand recovery and pricing growth.

Financial Summary	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (Rsm)	1,56,574	1,37,860	1,60,397	1,74,752	1,83,190
Operating EBITDA (Rsm)	24,103	23,551	28,256	30,875	33,530
Net Profit (Rsm)	13,748	16,063	17,434	19,321	20,962
Core EPS (Rs)	73.1	85.4	92.7	102.8	111.5
Core EPS Growth	77.7%	16.8%	8.5%	10.8%	8.5%
FD Core P/E (x)	26.53	22.70	20.92	18.88	17.40
DPS (Rs)	14.0	14.0	23.2	25.7	27.9
Dividend Yield	0.87%	0.87%	1.20%	1.32%	1.44%
EV/EBITDA (x)	13.20	12.94	10.69	9.55	8.32
P/FCFE (x)	12.97	11.17	62.80	32.00	18.28
Net Gearing	(40.3%)	(47.3%)	(44.7%)	(45.2%)	(50.3%)
P/BV (x)	3.16	2.87	2.60	2.36	2.14
ROE	12.5%	13.3%	13.1%	13.1%	12.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.00	1.00	0.98

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 18 MAY 2021

Analyst(s)

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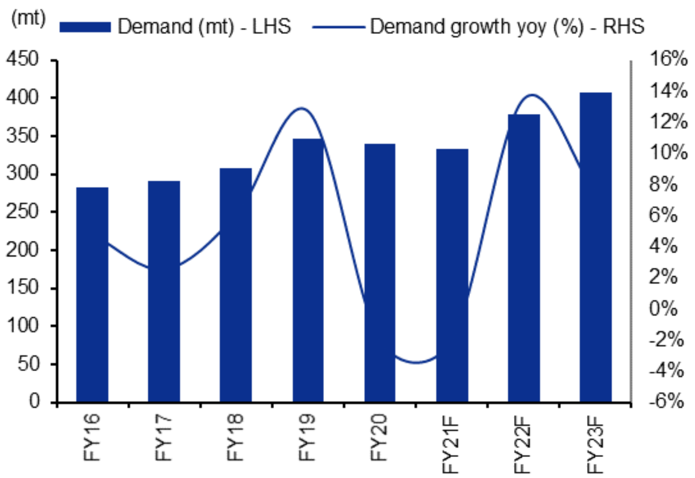
Only a few positives left

Volume growth likely to lag peers

Demand recovery to continue in FY22F while ACC to grow on par with the industry but fall behind its peers

- A slow, but sure, recovery in demand growth has been in sight since the Jul-Sep quarter, which is expected to pick up further and is supported by policy-driven initiatives, in our view. Aggregate demand has been better in the retail and rural segments with slow pick-up from the commercial segment. As per management, the cement industry will rise more than ~10% yoy in CY21 with demand revival to be likely led by India's North, East and Central regions led by low-cost housing and infrastructure.
- ACC saw volume growth of only 2.4% CAGR over CY16-20 (below industry average) due to capacity constraints and lately due to COVID-19. ACC's domestic volumes declined 11.6% yoy in CY20 compared to nearly ~7% decline on average for the top 15 cement players.
- Volumes picked up strongly towards the end of the year, with the company reporting capacity utilisation of more than 85% in 4QCY20 and clinker capacity utilisation already above 100%. We expect new capacity addition (4.8mtpa of cement and 2.7mtpa of clinker in Central India) to get delayed and completion by CY24 – and in that respect we believe capacity constraints will limit ACC's ability to maintain volume share over the next couple of years. Therefore, we forecast ACC's volume to grow ~11% yoy in CY21F and by ~7% yoy in CY22F/23F.

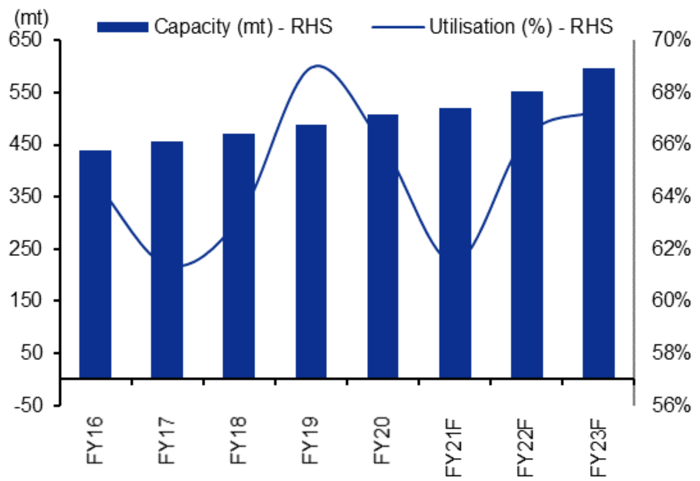
Figure 41: India's cement demand to witness ~6% CAGR over FY20-23F, led by IHB and infrastructure demand



IHB = INDIVIDUAL HOUSE BUILDING

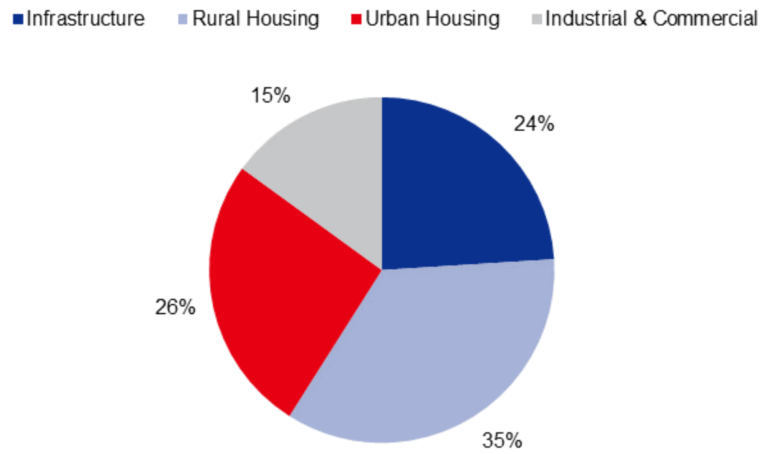
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 42: After declining in FY21, we expect cement industry utilisation levels to increase to ~67% in FY23F



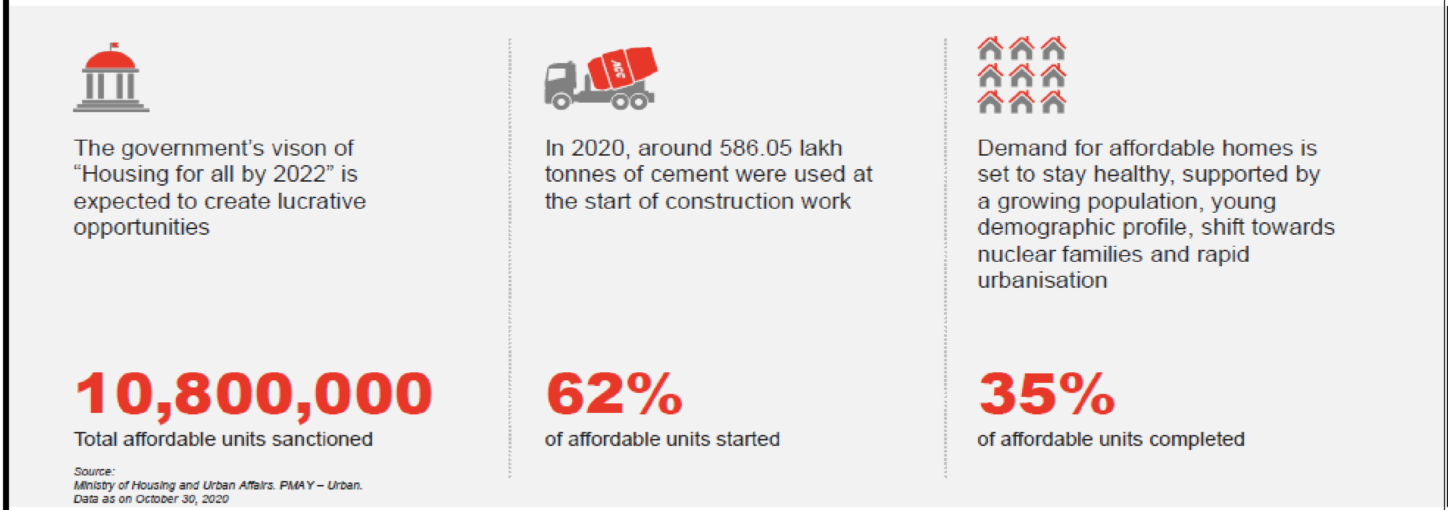
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 43: Cement consumption breakdown of the industry as at CY20 – IHB and Infrastructure to remain key growth drivers for cement industry



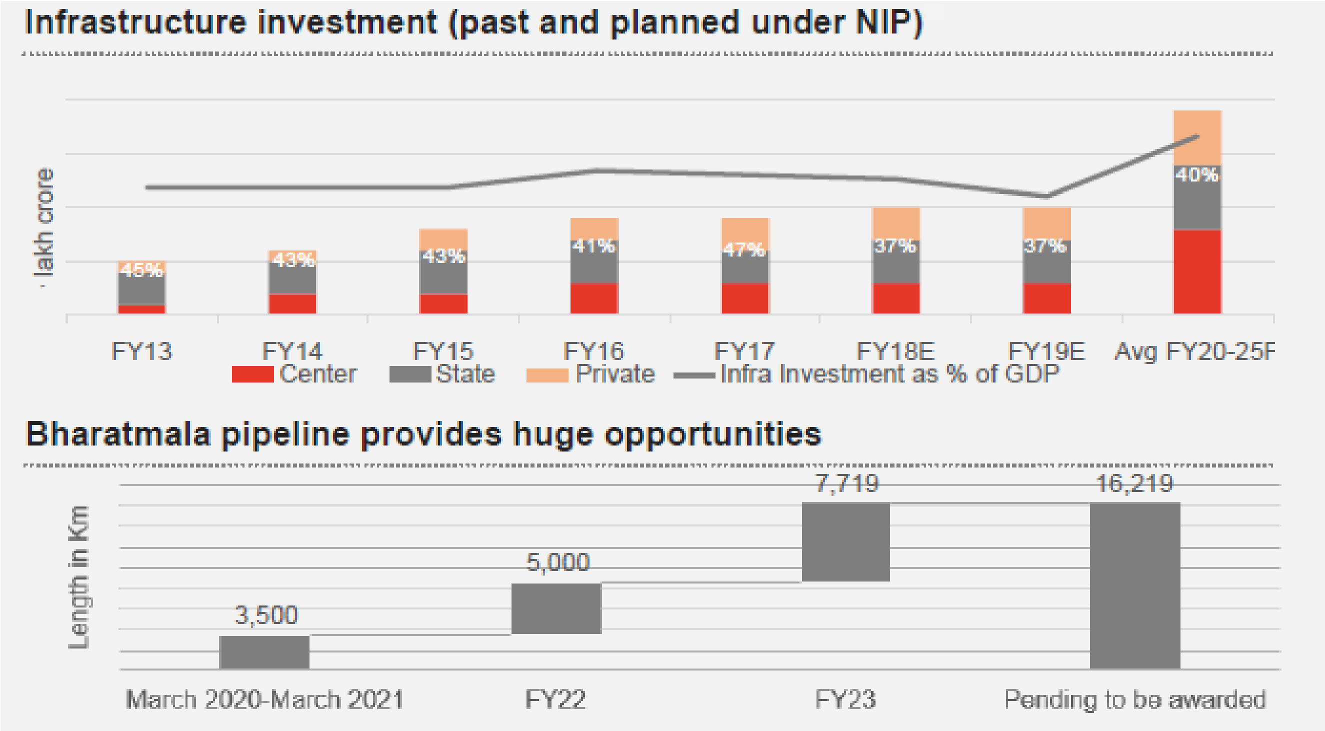
IHB = INDIVIDUAL BUILDING HOUSING
SOURCES: INCRED RESEARCH, ACC 4QCY20 RESULTS PRESENTATION

Figure 44: Affordable housing segment to be key driver (as at 30 Oct 2020) for the cement Industry



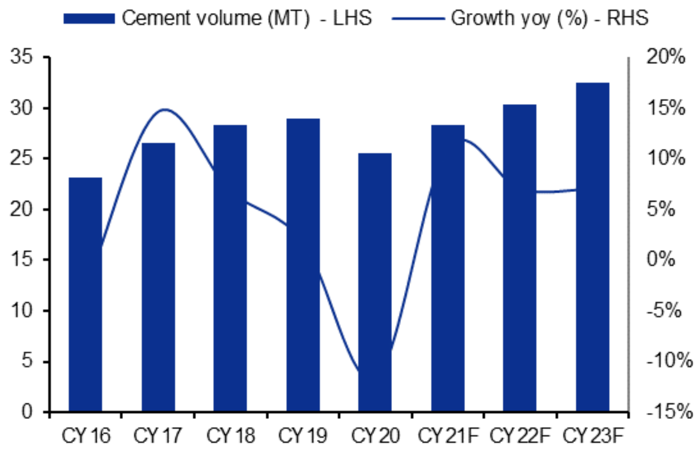
SOURCES: INCRED RESEARCH, ACC 4QCY20 RESULTS PRESENTATION

Figure 45: Infrastructure recovery to support demand for the cement industry



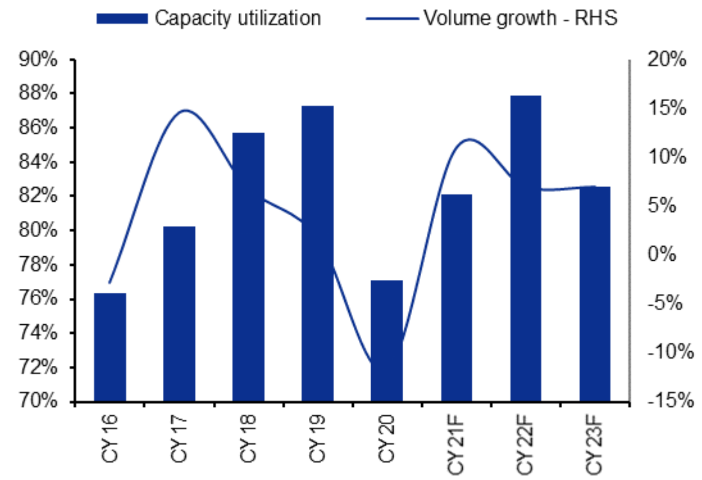
SOURCES: INCRED RESEARCH, ACC 4QCY20 RESULTS PRESENTATION

Figure 46: ACC's volumes have grown on par with industry and continue to do so



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 47: Utilisation levels to remain ahead of industry due to capacity constraints

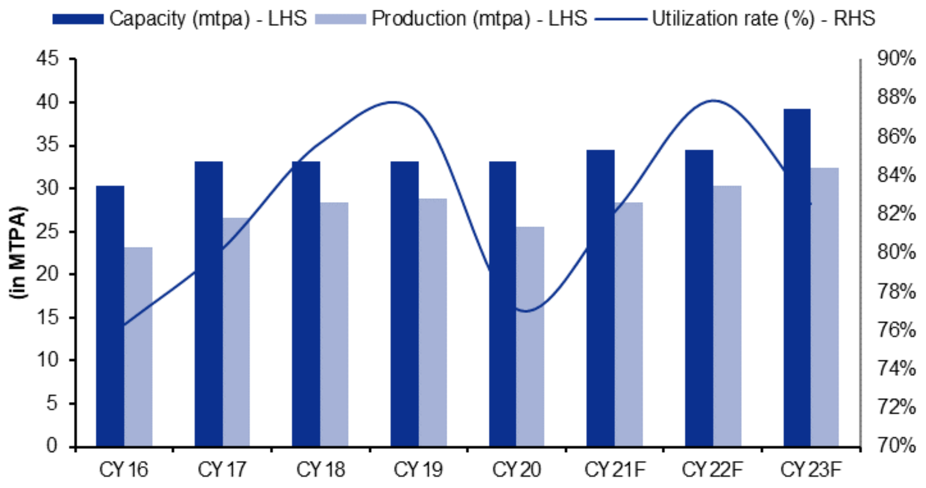


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Capacity constraints to limit volume growth and continue to lose market share ➤

- Capacity constraints have been a major cause of concern for ACC for the last couple of years, even as the company maintained a healthy balance sheet. ACC operated at 72%/85% utilisation levels in CY20/4QCY20 and ex-South, capacity utilisation for other regions would have been +80%. Due to this, we believe the company will not be able to take advantage of any recovery in cement demand going ahead, and its growth will continue to lag that of its peers.
- ACC's capex plan of adding 6.2mtpa capacity constitutes ~19% of the company's current capacity. Of that, the company commissioned a 1.4mtpa brownfield plant at Sindri in Jan 2021 while the rest of the capacity along with 2.7mtpa clinker unit will be commissioned by CY24 (vs the initial expectation of completion in CY21 then CY23 and now CY24, delayed due to the COVID-19 outbreak). Along with the above capex plan, management will set up WHRS plants with a total capacity of 22.5MW at two of its plants, which will take the WHRS capacity to 30MW by CY22F. Therefore, we believe ACC will continue to lose market share in high-growth regions. We build in ~7% volume CAGR over CY21-CY23F.

Figure 48: Cement utilisation to remain high leading to muted capacity addition in the medium term



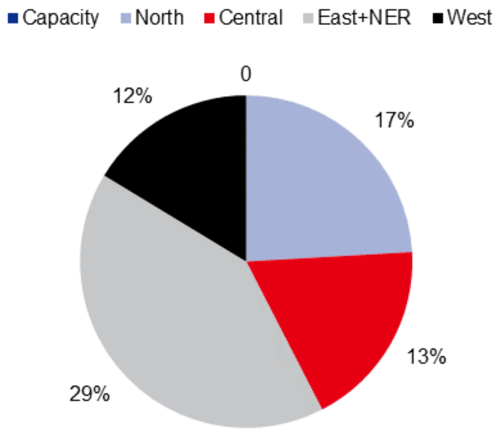
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 49: Most awaited expansion plan in Central region has been pushed to CY24 due to pandemic-led lockdown

Location	State	Type	Project	Grinding capacity (mtpa)	Clinker capacity (mtpa)	Project cost (Rs m)	Timeline
Ametha	Madhya Pradesh	IU	Greenfield	1	2.7		
Tikaria	Uttar Pradesh	GU	Brownfield	1.6		28400	CY24
Shonebhadra dist.	Uttar Pradesh	GU	Greenfield	2.2			
Sindri*	Jharkhand	GU	Brownfield	1.4			Jan '21
Total				**6.2**	**2.7**	**28400**	

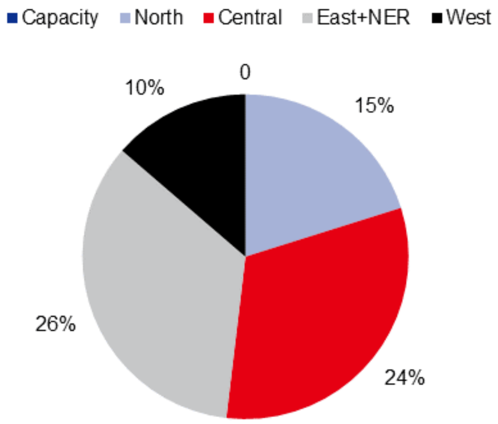
SOURCES: INCRED RESEARCH, COMPANY REPORTS
*COMMISSIONED IN JAN 2021

Figure 50: ACC's current region-wise distribution of cement capacity in India as at CY20



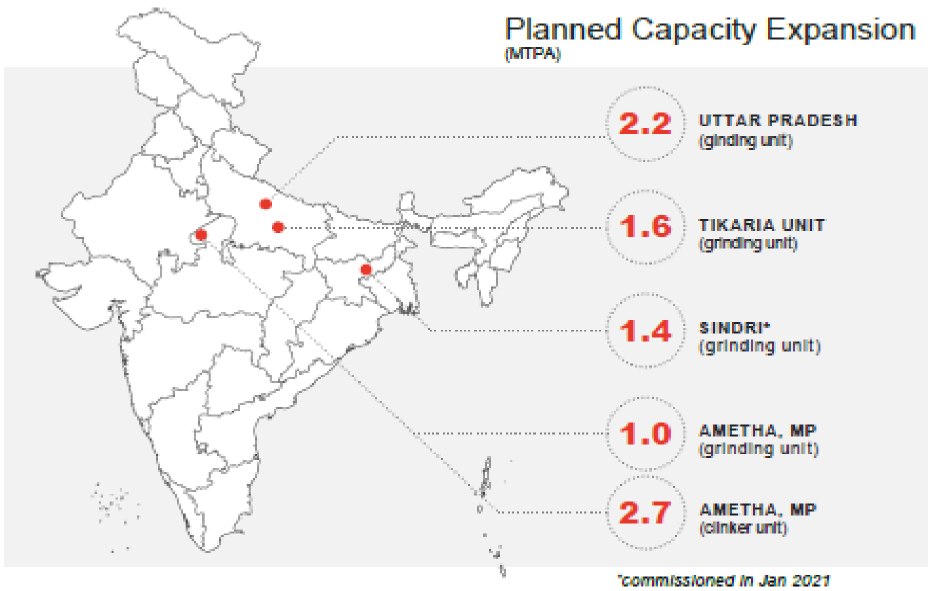
NER = NORTH EAST REGION
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 51: Post capacity expansion in Central India, ACC's share of Central region will increase by CY23F -24F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 52: ACC's capacity addition

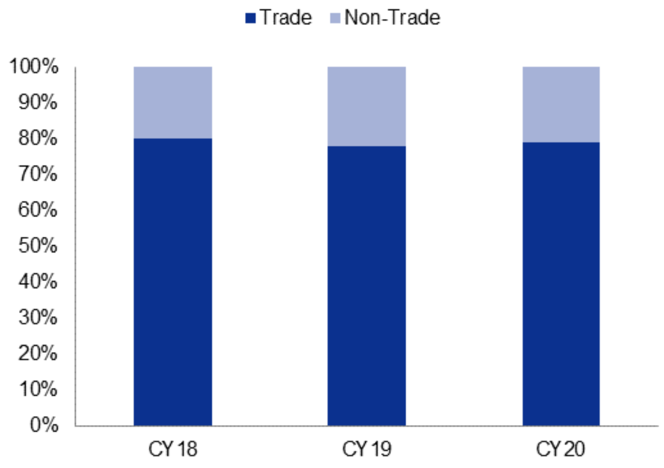


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Realisations to remain in check ➤

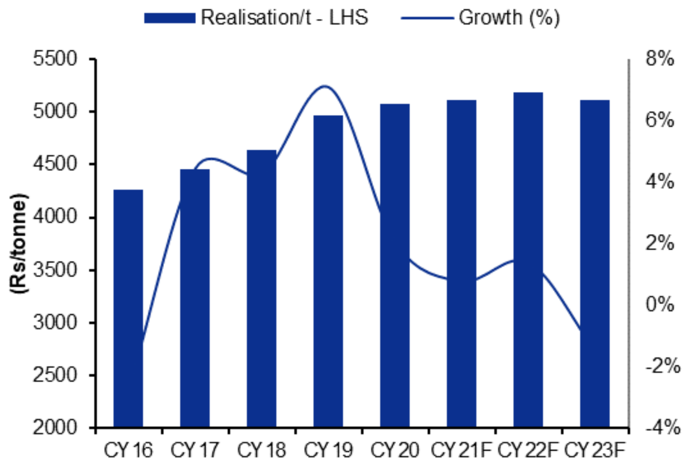
- ACC's capacity and, therefore, volume mix are largely skewed towards the East and South regions of India. Of these, the East region witnessed very strong growth rates in the past six to seven years, while South India has historically remained impacted by higher capacities and lower utilisations. The East market has been seeing an increased string of capacity additions by larger and smaller players as all players intend to operate in one of the country's highest-growing markets. ACC has almost 40-50% of its capacity exposed to South/East regions together, where cement pricing and realisations could stay range-bound and low given the ramp up of new capacity and a higher degree of market fragmentation versus other regions.
- Share of blended cement improved to 90% in CY20 while retail sales stood at ~79% during CY20. While a higher share of retail/rural sales for ACC and contribution from premium variant of cement remains a key positive and could support our realisation forecasts, we factor in a flat realisation CAGR over CY20-CY23F.

Figure 53: ACC's retail/rural cement sales remained high



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 54: ACC's realisation/t to remain under pressure due to its exposure to South/East region

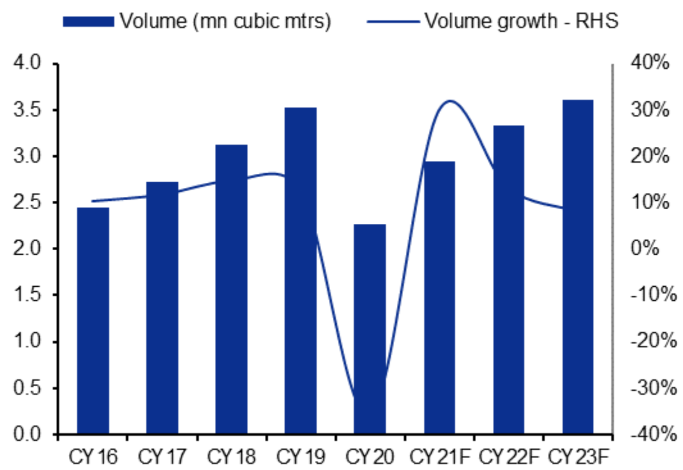


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Ready mixed concrete business to aid revenue and profitability once urban market starts seeing recovery

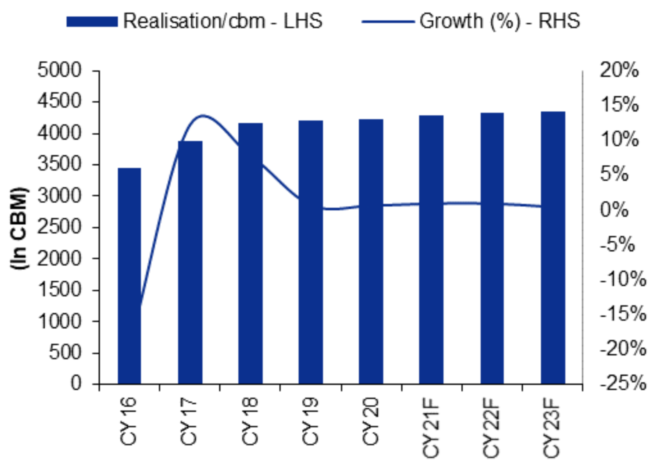
- ACC's ready mixed concrete (RMC) business grew strongly in the past (volumes grew by ~12% CAGR over CY15-CY19), but its volumes dropped 35% in CY20 due to the COVID-19-driven nationwide lockdown in early 2020. The company currently has 83 operational ready-mix plants spread across 17 Indian states.
- RMC production volume decreased by 36% yoy from 3.5m cbm in CY19 to 2.2m cbm in CY20. RMC sales volume fell 36% yoy to 2.3m cbm in CY20. The ready-mix concrete business receivables were reduced by 32% yoy in CY20. EBITDA margin for the segment stood at 6%. We expect the division to post volume and realisation CAGR of 17% and 1% respectively over CY20-CY23F.

Figure 55: ACC's RMC volumes dropped 36% in CY20 due to COVID-19-led nationwide lockdown



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 56: ACC's RMC division's realisation trend



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Rising input cost to impact near-term blended EBITDA/t more than peers

Cost-saving initiatives help ACC in a big way, while any incremental cost savings look difficult

- ACC has historically seen a higher cost structure than its peers, leading to lower profitability. Lower plant efficiency along with higher freight costs and other overhead expenses have resulted in a high-cost structure. Though the company has been taking steps to improve plant efficiency and rationalise lead distance, these parameters still lag those of its peers.
- ACC's cost structure has remained resilient vs its peers as it improved efficiency in power and logistics through its project Parvat and the MSA with Ambuja. ACC has managed a relatively stable cost structure from savings in SG&A and employee costs. It recently focused on freight (Rs200/t) and power and fuel (P&F) through WHRS. However, the company realised significant cost savings in CY20, with a recent surge in input cost suggesting a higher bar for ACC's incremental savings. We estimate 3% increase in opex/t over CY20-23F.
- However, pet coke/international coal prices have increased sharply and companies are trying to partly pass on rising input costs by way of price hikes and there could be some impact on per unit margins in the nearer term. While ACC continues to focus on new product launches in the value added and premium categories, it has been increasing the share of blended cement in its overall product mix to improve margins. We expect ACC's cement unitary EBITDA to rise from Rs899/t in CY20 to Rs1,017/t by CY23F.

MSA and project Parvat to drive cost reduction in CY20

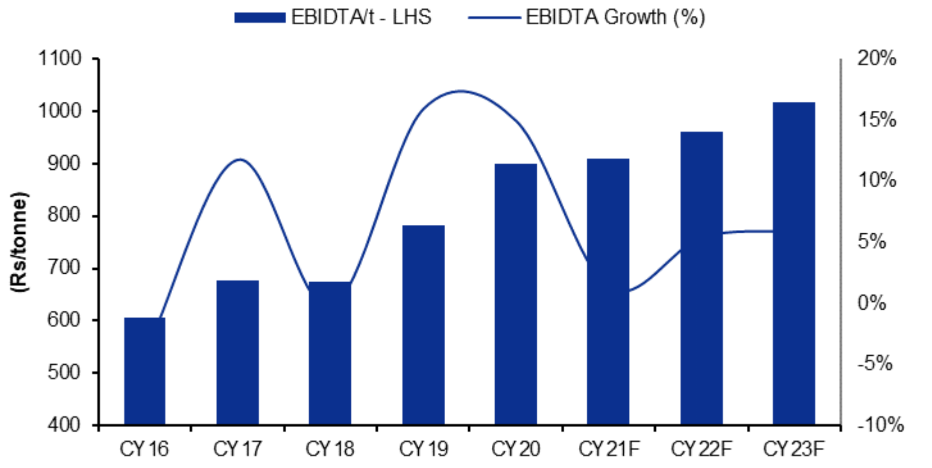
Master Supply Agreement

- In Mar 2018, Ambuja Cement (ACEM IN, CMP Rs212) and ACC entered into a Master Supply Agreement (MSA) deal to benefit from synergies by procuring clinker, cement, raw material from each other and undertake toll grinding. MSA aims to improve the cost-to-service market and improve cement utilisation of ACC and Ambuja Cement (ACEM).
- Both companies will sell the cement purchased from each other under their own brands, hinting that the marketing and advertising cost savings will be narrowed. The MSA seeks an equitable sharing of marginal perks on an annual basis for both companies. Managements of both expect about 3-5% benefit from MSA at the pre-tax profit level. On a combined basis, ACC-Ambuja realised savings of Rs2.5bn (~5% of profit before tax) in CY20.
- ACC's presence is manifold, whereas ACEM's presence is by and large in North and West India. ACEM may leverage ACC's pan-India clinker capacity in North and East India to reduce lead distance. Also, ACC could source cement from ACEM's capacity in West India to cater to South India through ACEM's sea terminals.
- In CY20, related party dealings between ACC and ACEM increased as both companies looked to achieve synergy benefits under the MSA. Both companies have renewed the agreement for three years and expect similar savings going forward.

Cost optimisation through project Parvat

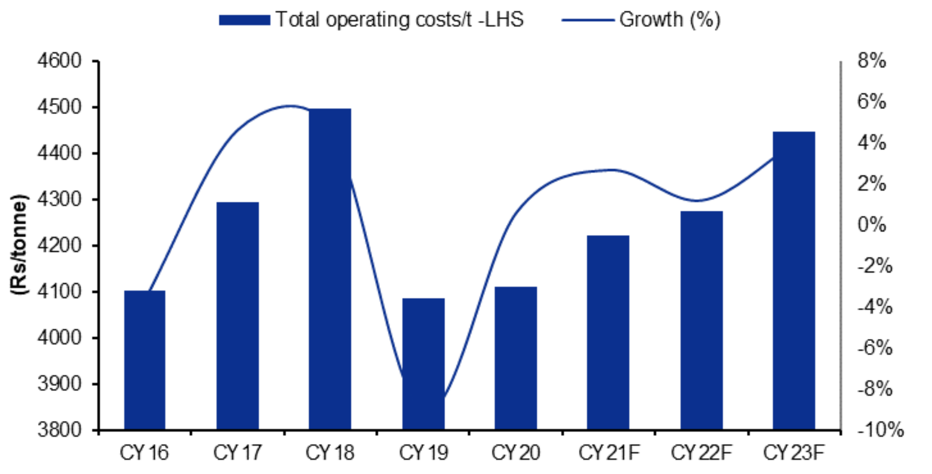
- Through the Parvat initiative, started in 2019, ACC has been streamlining its operations to achieve better efficiencies and moderate operating costs. The company undertook several cost-saving projects like renegotiation of warehouse rents, increased direct dispatches of sales, and renegotiated fuel/freight mix.
- In CY20, around 500 initiatives were implemented. The company was able to save Rs2.5bn in costs via this initiative (Rs110/tonne was the actual cost of cement improvement).

Figure 57: Cement unitary EBITDA to be muted in CY21 and should improve thereafter



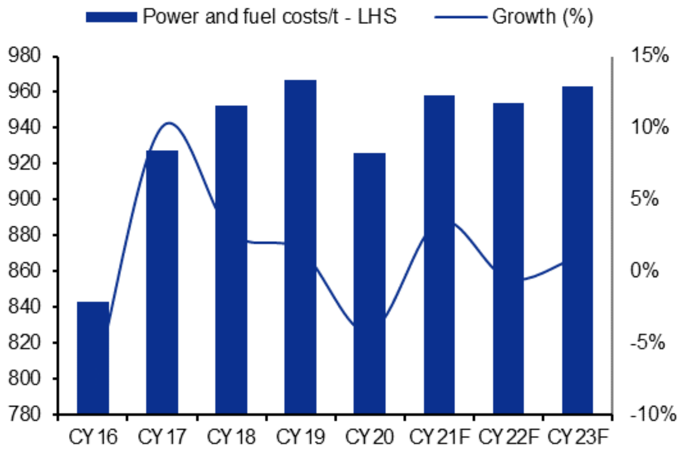
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 58: ACC's total operating cost to increase significantly in CY21 and post that due to acceleration in volumes



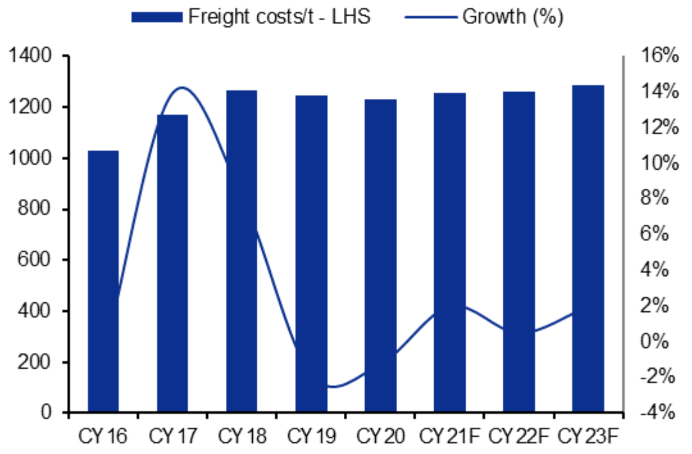
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 59: P&F costs to increase in CY21 amid higher input costs



P&F = POWER AND FUEL
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 60: Recent increase in diesel prices to raise logistics cost

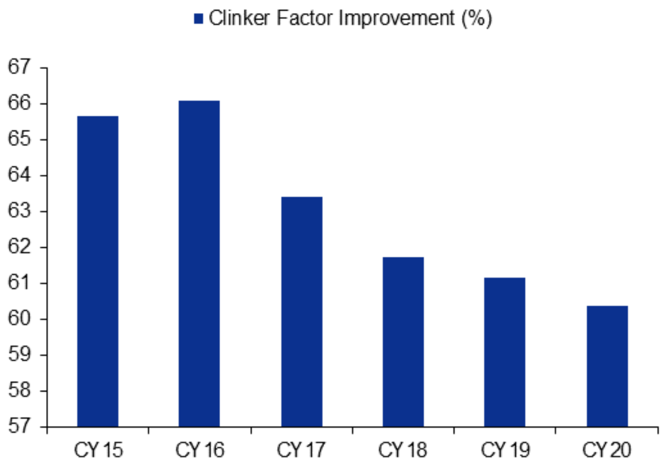


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 61: Parvat initiative helped ACC save Rs2.5bn in costs in CY20

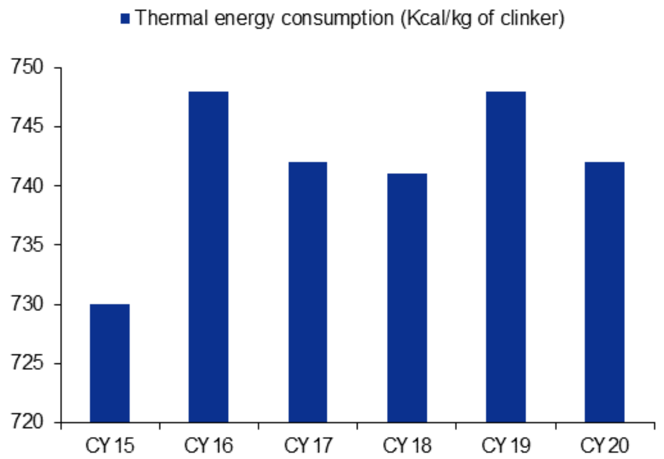
SOURCES: INCRED RESEARCH, ACC CY20 ANNUAL REPORT

Figure 62: Clinker factor



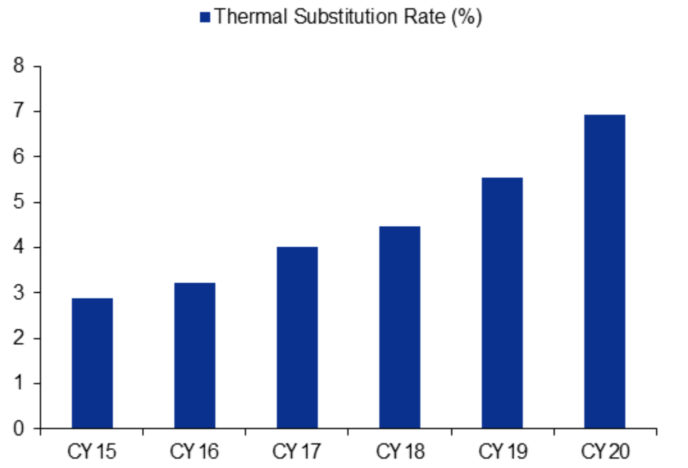
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 63: Thermal energy efficiency



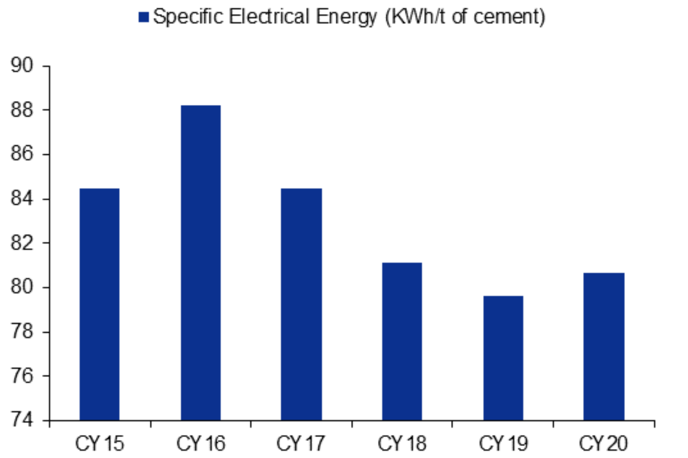
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 64: ACC's thermal substitution rate



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 65: ACC's electric energy consumption



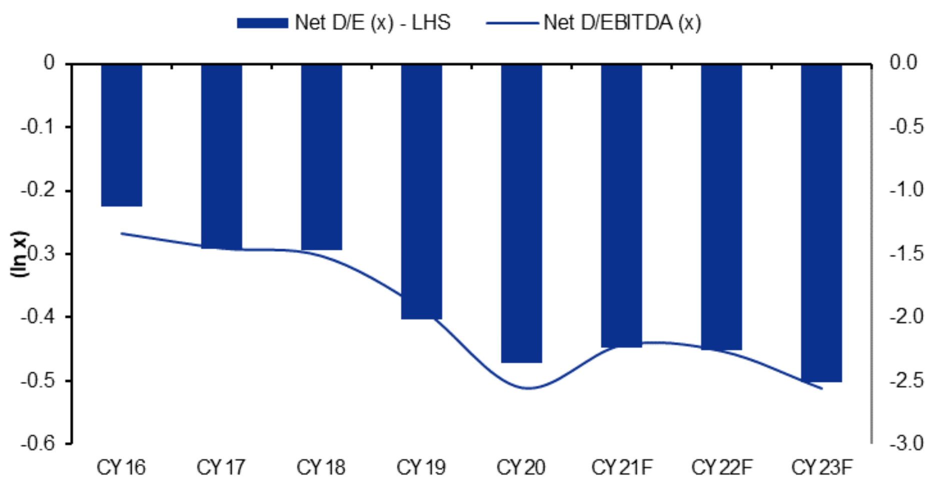
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Strong balance sheet, but not leveraged for growth

Return ratios to remain steady with industry level

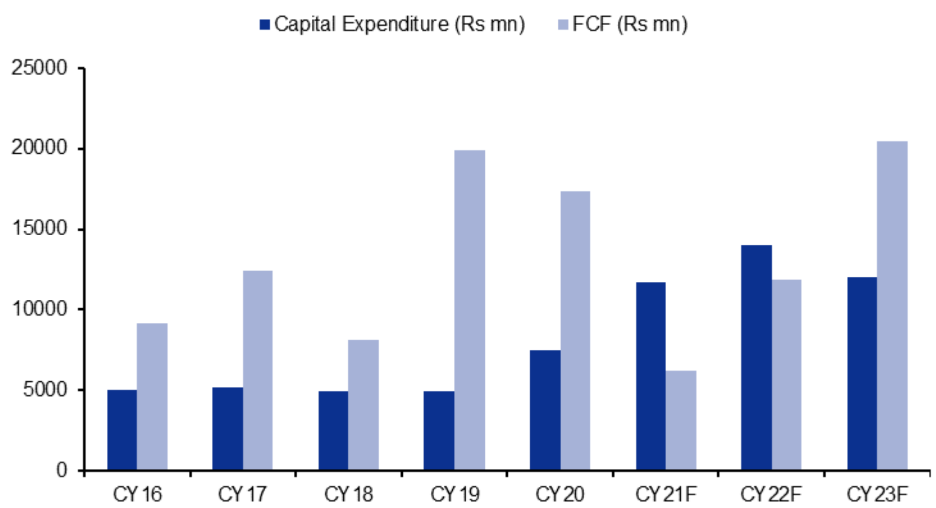
- Since CY10, ACC has not invested adequately in capacity creation, neither organically nor inorganically, in our view. As a result, the gap between the company and industry leaders has widened considerably. ACC's balance sheet remains strong and currently carries net cash of Rs60bn as of CY20.
- ACC intends to fund its planned capacity expansion of Rs30bn via internal accruals. However, because of such a high cash position, ACC's RoE and RoIC have remained depressed, but in line with the industry average. We estimate Rs14bn annual capex for ACC in CY21F-CY22F which includes maintenance capex, WHRS at Jamul, Ametha and Kaimor and greenfield/brownfield expansion in Central India. Despite huge capex, we expect cumulative FCF of Rs39bn over CY21F-23F.

Figure 66: Targeted capex should be funded largely from internal accruals



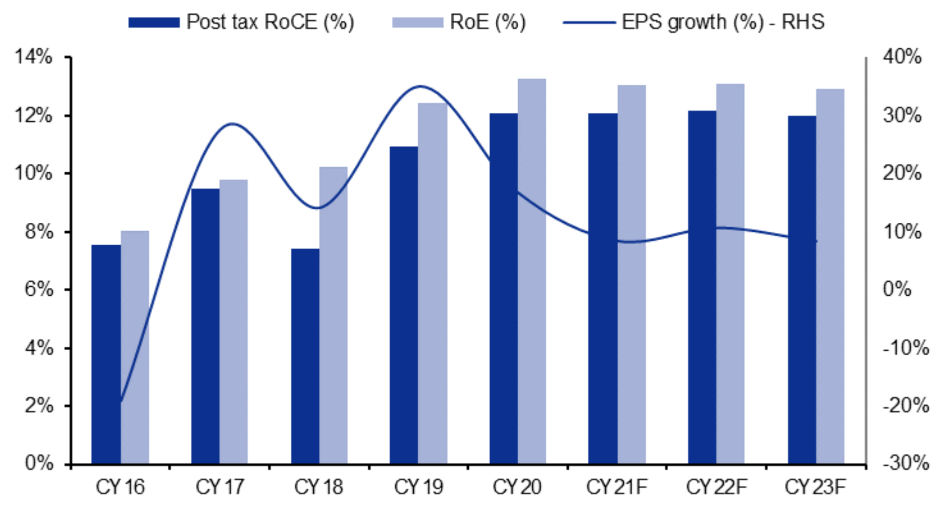
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 67: ACC's capex remained steady over CY16-20; FCF post capex should result in further increase in net cash position



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 68: Post tax RoCE expansion to be limited for ACC



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Initiate with Hold rating, Mar 2023 TP of Rs2,074

Valuation

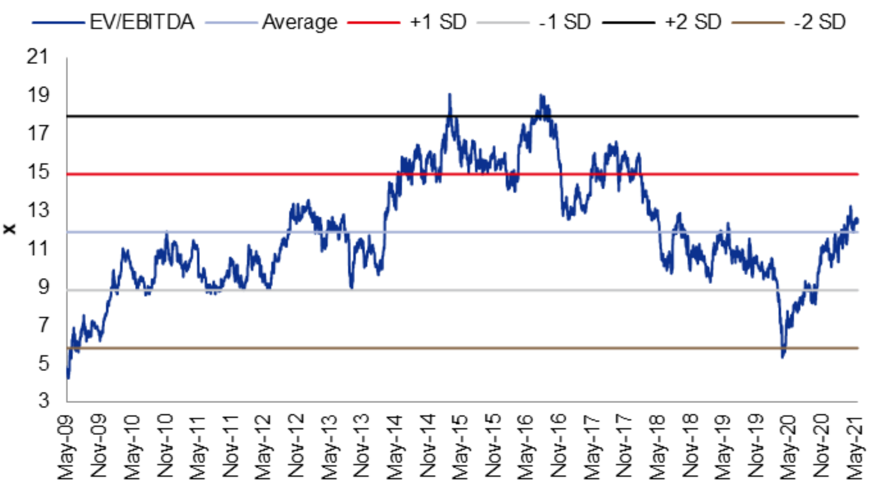
- We expect volume growth for ACC to lag its peers in our coverage due to limited headroom for capacity ramp-up in a medium term. Large exposure to South and East (~58% of total capacity) – regions in India that have seen the highest price rollbacks – would also likely lead to a weaker improvement in realisations vis-à-vis peers. We estimate volume and EBITDA/tonne CAGR of 8% and 4% over CY20-CY23F, respectively.
- Currently, ACC trades on a one-year forward EV/EBITDA of 10x, a 10% premium to its three-year average. The company does not have the best cost structure and proportionate long-term growth opportunities to allow trade at rich valuations. While given its higher utilisation, ACC is better positioned in a weak demand environment, in our view. Upcoming capacity expansion could help defend market share in the long term.
- AT CMP of Rs1,940, ACC is trading at CY21F/CY22F EV/EBITDA of 10.7x/9.6x, respectively. We initiate coverage on the company with a Hold rating on account of its relatively weak market share outlook and margin profile. Our target price of Rs2,074 is set at 10x Mar 2023F EV/EBITDA which is in line with its historical median and at a discount to large cap peers. The company has net cash on books (~17% of market cap), which cushions its valuations, in our view.

Figure 69: Our target price of Rs2,074 is based on 10x Mar 2023F EV/EBITDA

Valuation	TP
Target EV/EBITDA (x)	10
Target EV (Rs m)	3,08,752
Net debt / (cash) (Rs m) (as on CY22F)	69,811
No. of shares (m)	188
Fair value per share (Rs)	**2,074**

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 70: We value the stock at 10x FY23F EV/EBITDA to arrive at Rs2,074 TP



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 71: ACC trading at P/BV at c.2.1x for FY23F

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Risks

Downside risks ➤

- Any further slowdown in cement demand. Cement demand growth was badly impacted in early CY20 due to the COVID-19-led pandemic. Any prolonged slowdown in general construction activities across the country might impact ACC's volume growth much higher vs peers.
- Demand slump in the key market of South and East India could impact the company's volume growth.
- Higher-than-expected increase in raw material prices, particularly crude and rubber.
- Any correction in cement prices/ further rise in input costs and sustaining over the medium term to hit realisations and EBITDA/t.
- Any potential increase in royalty to the parent.
- Further delay in commissioning of new capacities: Capacity constraints will limit ACC's ability to maintain volume share over the next couple of years.

Upside risks ➤

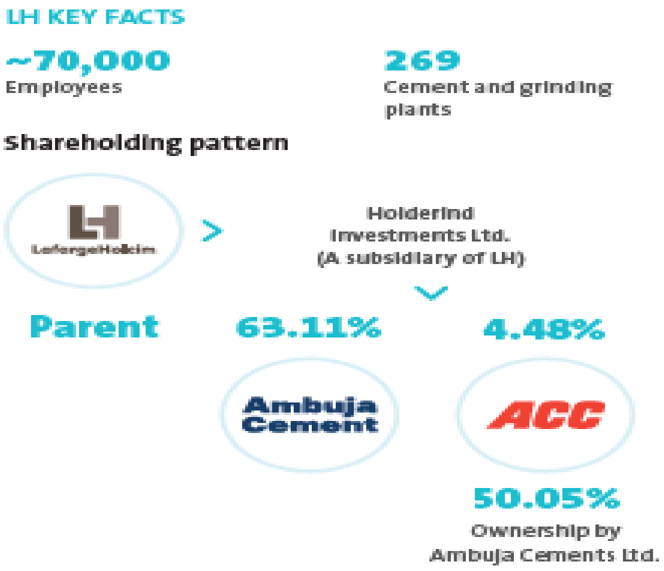
- Better-than-expected demand and pricing growth.
- Higher-than-expected rise in realisation due to strong demand, especially in the South and East, would drive up profitability.
- Significant cost reductions and lower raw material costs (lower-than-expected fuel and freight cost, which accounts for ~60% of overall costs), providing better-than expected EBITDA/t.
- Any fresh announcement of new capacity addition or growth plan in the medium term.

Company introduction and management profile

Company background

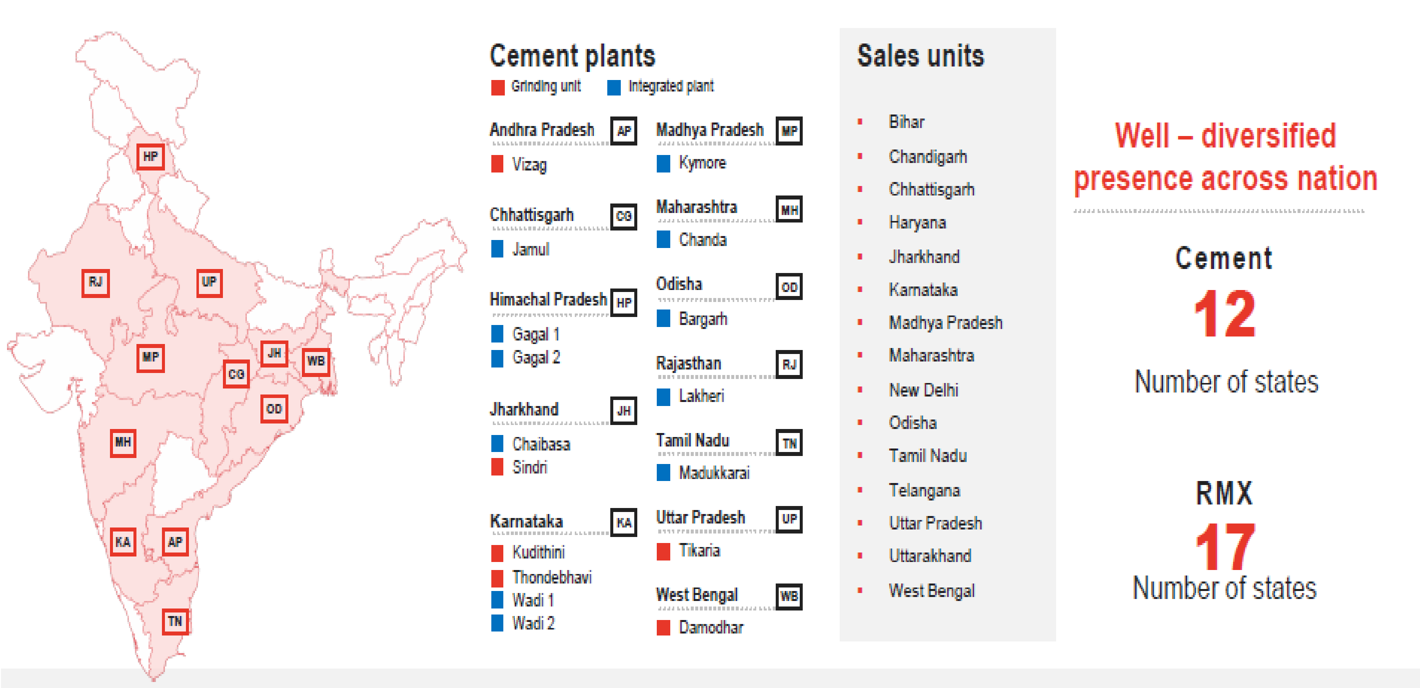
- ACC is a part of the LafargeHolcim Group, with promoters holding about 54.5% of the company. About 50.05% of the stake is held by Ambuja Cements, and the remaining 4.48% directly by Holderind Investments Ltd. (subsidiary of LafargeHolcim).
- In 1936, ten cement companies belonging to the Tata, Khatau, Killick Nixon and F E Dinshaw groups merged to form a single entity – The Associated Cement Companies. The name was changed to the current ACC Ltd in 2006.
- ACC's total cement capacity was 33.05mtpa in CY20, with 17 cement plants across 12 states and nine captive power plants (currently, total capacity is 34.5mtpa). ACC is the third largest player in India on capacity share and a diversified presence across the country. The company also has 80 RMC plants spread across 17 states.
- The company plans to increase capacity by 2.7mtpa of clinker and 4.8mtpa of cement by CY24. Of this, a 2.2mtpa PPC (Pozzolana Portland Cement) unit at Shonebhadra, Uttar Pradesh, is expected to commence by CY24 (delayed vs expectations), while the other units under this expansion plan will come by CY22-23. The company is also adding 22.5MW of WHRS capacity, slated to complete by CY22.
- In CY20, the share of blended cement improved 90% from 89% in CY19 while the trade: non-trade mix improved to 79%:21% in CY20 from 78%:22% in CY19. The channel network consists of ~12,000 dealers and ~56,000 channel partners. ACC added 2,050 new dealers and ~6,700 new retailers in CY20.
- ACC has renewed its agreement of technical and know-how (TKH) fees with the parent at the earlier rate of 1% of net sales for the next two years (CY21-22F). Technology and know-how fees were Rs1.3bn in CY20 vs. Rs1.5bn in CY19.

Figure 72: LafargeHolcim Group indirectly manages ACC operations



SOURCES: INCRED RESEARCH, ACC CY20 ANNUAL REPORT

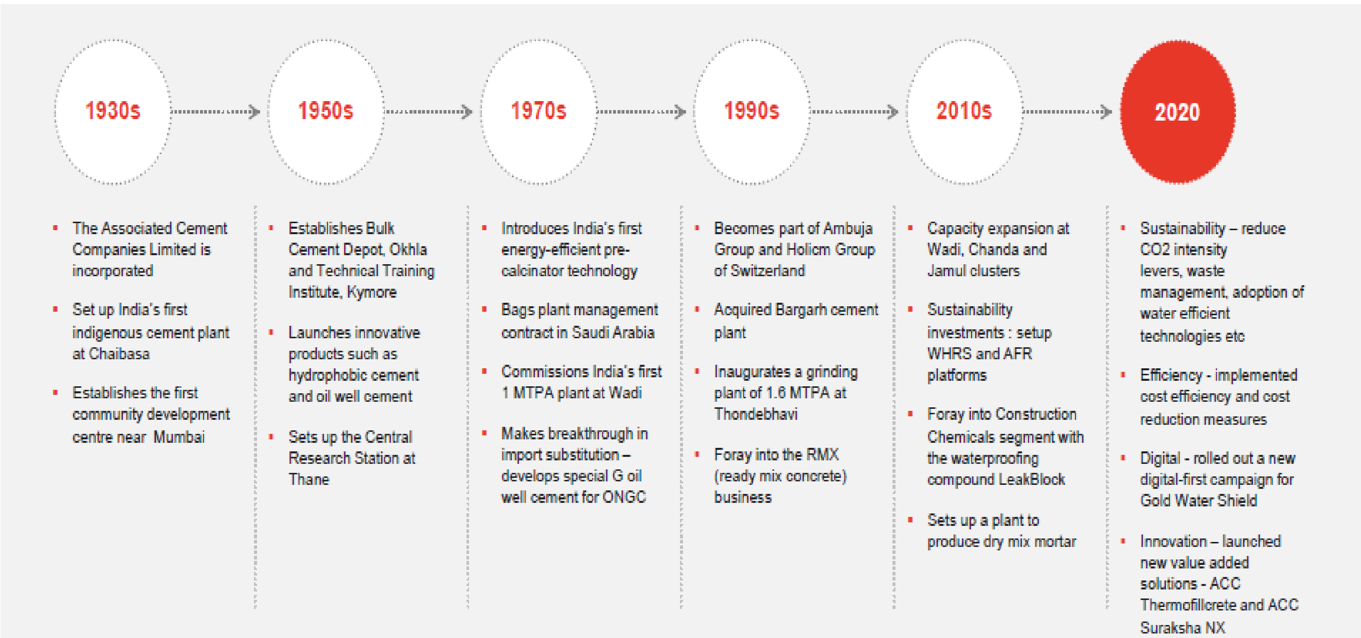
Figure 73: ACC's geographical footprint – nation-wide presence



SOURCES: INCRED RESEARCH, ACC 4QCY20 RESULTS PRESENTATION

ACC's milestones

Figure 74: Journey of ACC from incorporation



SOURCES: INCRED RESEARCH, ACC 4QCY20 RESULTS PRESENTATION

ACC's product portfolio ➤
Cement

Figure 75: Gold range

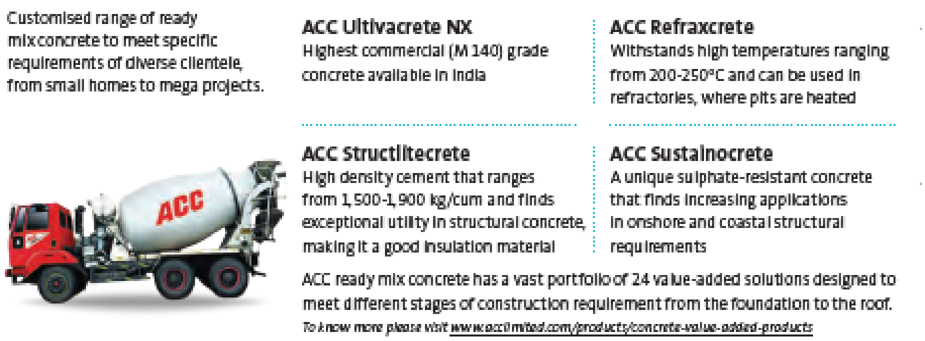
SOURCES: INCRED RESEARCH, ACC CY20 ANNUAL REPORT

Figure 76: Silver range

SOURCES: INCRED RESEARCH, ACC CY20 ANNUAL REPORT

Ready mix concrete

Figure 77: ACC offers wide range of value-added products



SOURCES: INCRED RESEARCH, ACC CY20 ANNUAL REPORT

Construction chemicals

Figure 78: Offers range from waterproofing compounds to tile adhesive products

SOURCES: INCRED RESEARCH, ACC CY20 ANNUAL REPORT

SWOT Analysis

Figure 79: ACC Limited

Strength	**Weakness**
Backed by global conglomerate LafargeHolcim group. Strong brand positioning. Strong financial profile.	Capacity constraints. Further increase in input costs. Any backdrop in cement prices.
Opportunity	**Threat**
Improving cost structure vs peers by various cost-saving initiatives.	Delays in planned capacity expansion. Market share loss.

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Key management profile

- The board currently comprises 12 members, with one executive director, five non-executive directors and six non-executive and independent directors.
- There have been significant management changes at ACC and ACEM with a new CEOs and CFOs at both. In early CY20, Mr. Neeraj Akhoury's move from ACC to Ambuja as the CEO allowed for better collaboration between the two companies and early signs of progress on realisation of MSA (synergy) gains.
- In CY18, ACC appointed Ms. Rajani Kesari as the new CFO, replacing Mr. Sunil Nayak. She has over 28 years of leadership experience and was the Head of Finance for the Asia Region of the LafargeHolcim Group. She joined LafargeHolcim from Schneider Electric where she was the CFO for the East Asia and Japan zone.

Figure 80: LHN and India subsidiaries – Key management changes

Name	Designation	Since
Jan Jenisch	Deputy Chairman - ACC Vice Chairman – ACEM	CEO of LHN from Oct 2017
1) ACC		
Sridhar Balakrishnan	MD & CEO	Feb 2020
Rajani Kesari	CFO	Aug 2019
2) Ambuja		
Neeraj Akhoury	MD & CEO	Feb 2020 & on board of ACC
Sonal Shrivastava	CFO	May 2019

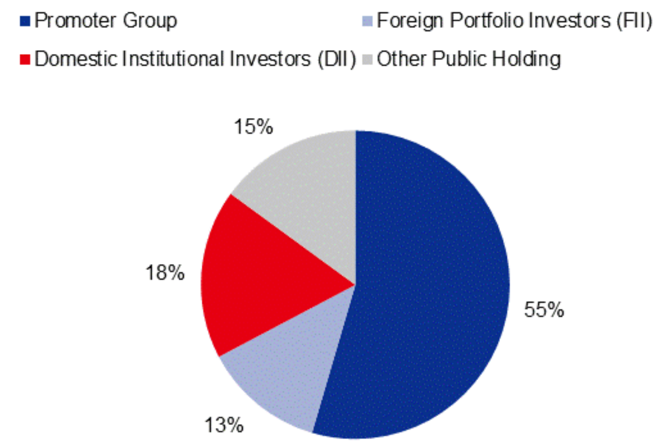
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 81: ACC's board of directors

Name	Designation
Mr. Sridhar Balakrishnan	**MD & CEO**
Mr. N.S. Sekhsaria	Non-Executive and Non-Independent Director
Mr. Jan Jenisch	Non-Executive and Non-Independent Director
Mr. Neeraj Akhoury	Non-Executive and Non-Independent Director
Mr. Martin Kriegner	Non-Executive and Non-Independent Director
Mr. Shailesh Haribhakti	Non-Executive and Independent Director
Mr. S K Roongta	Non-Executive and Independent Director
Ms. Falguni Nayar	Non-Executive and Independent Director
Mr. M.R Kumar	Non-Executive and Non-Independent Director
Mr. Vinayak Chatterjee	Non-Executive and Independent Director
Mr. Damodarannair Sundaram	Non-Executive and Independent Director
Mr. Sunil Mehta	Non-Executive and Independent Director

SOURCES: INCRED RESEARCH, COMPANY REPORTS

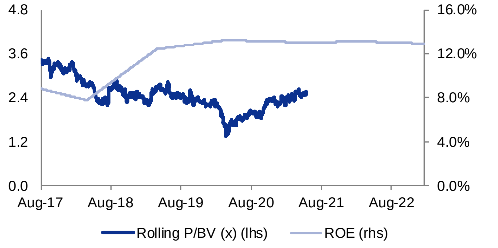
Figure 82: Shareholding pattern (as at 31 Mar 2021)



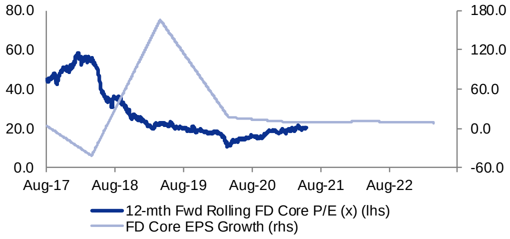
SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(Rs mn)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	**1,56,574**	**1,37,860**	**1,60,397**	**1,74,752**	**1,83,190**
Gross Profit	**1,56,574**	**1,37,860**	**1,60,397**	**1,74,752**	**1,83,190**
Operating EBITDA	**24,103**	**23,551**	**28,256**	**30,875**	**33,530**
Depreciation And Amortisation	(6,064)	(6,388)	(6,516)	(6,679)	(7,213)
Operating EBIT	**18,039**	**17,163**	**21,740**	**24,196**	**26,317**
Financial Income/(Expense)	(863)	(571)	(582)	(606)	(630)
Pretax Income/(Loss) from Assoc.	140	89	109	129	149
Non-Operating Income/(Expense)	3,185	2,167	2,254	2,344	2,438
Profit Before Tax (pre-EI)	**20,501**	**18,849**	**23,521**	**26,064**	**28,275**
Exceptional Items					
Pre-tax Profit	**20,501**	**18,849**	**23,521**	**26,064**	**28,275**
Taxation	(6,753)	(2,786)	(6,087)	(6,743)	(7,313)
Exceptional Income - post-tax					
Profit After Tax	**13,748**	**16,063**	**17,434**	**19,321**	**20,962**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**13,748**	**16,063**	**17,434**	**19,321**	**20,962**
Recurring Net Profit	13,748	16,063	17,434	19,321	20,962
Fully Diluted Recurring Net Profit	**13,748**	**16,063**	**17,434**	**19,321**	**20,962**

Cash Flow

(Rs mn)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	24,103	23,551	28,256	30,875	33,530
Cash Flow from Invt. & Assoc.					
Change In Working Capital	2,699	3,883	(5,314)	527	4,929
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	3,185	2,167	2,254	2,344	2,438
Other Operating Cashflow	(2,270)	1,901	(1,000)	(1,000)	(1,000)
Net Interest (Paid)/Received	(863)	(571)	(582)	(606)	(630)
Tax Paid	4,471	7,069	(6,087)	(6,743)	(7,313)
Cashflow From Operations	**31,326**	**38,000**	**17,527**	**25,398**	**31,955**
Capex	(4,949)	(7,479)	(11,720)	(14,000)	(12,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,733	2,127			
Cash Flow From Investing	**(3,217)**	**(5,352)**	**(11,720)**	**(14,000)**	**(12,000)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,169)	(2,629)	(4,359)	(4,830)	(5,241)
Preferred Dividends					
Other Financing Cashflow	(572)	(645)	1,109	629	1,149
Cash Flow From Financing	**(3,742)**	**(3,274)**	**(3,249)**	**(4,201)**	**(4,091)**
Total Cash Generated	24,367	29,375	2,558	7,197	15,864
Free Cashflow To Equity	**28,109**	**32,648**	**5,807**	**11,398**	**19,955**
Free Cashflow To Firm	**28,972**	**33,219**	**6,389**	**12,003**	**20,585**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	46,477	60,057	62,615	69,811	85,675
Total Debtors	6,267	4,514	7,338	7,525	7,951
Inventories	11,419	9,013	13,814	15,050	15,405
Total Other Current Assets	11,078	10,903	12,132	13,218	13,966
Total Current Assets	**75,241**	**84,486**	**95,899**	**1,05,604**	**1,22,997**
Fixed Assets	70,112	65,544	71,027	78,348	83,135
Total Investments	1,230	1,293	1,293	1,293	1,293
Intangible Assets	4,612	5,583	5,602	4,102	4,102
Total Other Non-Current Assets	20,165	25,097	24,798	26,298	26,298
Total Non-current Assets	**96,119**	**97,516**	**1,02,720**	**1,10,041**	**1,14,827**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	14,750	14,222	16,920	18,570	19,360
Other Current Liabilities	32,233	33,820	34,663	36,049	41,717
Total Current Liabilities	**46,982**	**48,043**	**51,584**	**54,619**	**61,076**
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	8,908	6,936	6,936	6,436	6,436
Total Non-current Liabilities	**8,908**	**6,936**	**6,936**	**6,436**	**6,436**
Total Provisions					
Total Liabilities	**55,891**	**54,979**	**58,520**	**61,055**	**67,512**
Shareholders Equity	1,15,438	1,26,991	1,40,067	1,54,558	1,70,279
Minority Interests	32	32	32	32	32
Total Equity	**1,15,469**	**1,27,024**	**1,40,099**	**1,54,590**	**1,70,312**

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	5.8%	(12.0%)	16.3%	8.9%	4.8%
Operating EBITDA Growth	17.8%	(2.3%)	20.0%	9.3%	8.6%
Operating EBITDA Margin	15.4%	17.1%	17.6%	17.7%	18.3%
Net Cash Per Share (Rs)	247.23	319.47	333.07	371.36	455.74
BVPS (Rs)	614.06	675.52	745.08	822.16	905.79
Gross Interest Cover	20.91	30.07	37.34	39.96	41.79
Effective Tax Rate	32.9%	14.8%	25.9%	25.9%	25.9%
Net Dividend Payout Ratio	23.1%	19.7%	25.0%	25.0%	25.0%
Accounts Receivables Days	17.41	14.27	13.49	15.52	15.42
Inventory Days	32.88	27.05	25.97	30.14	30.34
Accounts Payables Days	46.86	46.26	43.01	45.02	46.25
ROIC (%)	23.5%	23.6%	26.2%	26.9%	29.3%
ROCE (%)	16.3%	14.2%	16.3%	16.4%	16.2%
Return On Average Assets	8.8%	9.4%	9.5%	9.6%	9.5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

CGSCIMB | INITIATION | InCred Equities

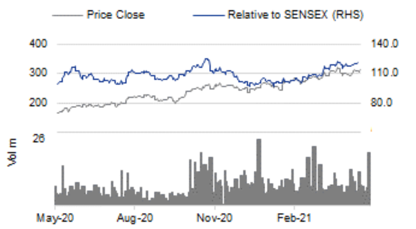
Company Note | Cement | India | May 20, 2021

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 31 Hold 7 Sell 6
Current price:	Rs316
Target price:	Rs353
Previous target:	NA
Up/downside:	11.7%
InCred Research / Consensus:	4.1%
Reuters:	ABUJ.NS
Bloomberg:	ACEM IN
Market cap:	US$8,581m
	Rs6,26,769m
Average daily turnover:	US$29.8m
	Rs2177.5m
Current shares o/s:	1,985.7m
Free float:	36.6%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.0	11.6	83.4
Relative (%)	0.3	13.2	10.3

Major shareholders	% held
Promoter & Promoter Group	63.3
Life Insurance Corporation of India	4.6
Government of Singapore	1.8

Ambuja Cements Ltd

To benefit from demand growth

- ACEM operates primarily in North, West and East India. It is likely to benefit from high utilisation in the North and West, with growth potential in the East.
- Near-term capacity expansion puts ACEM in a strong position to sustain its market share, while cost saving initiatives are contributing well.
- We prefer Ambuja Cement over ACC due to its more aggressive and improved execution. We initiate coverage on ACEM with an Add rating and TP of Rs353.

Geographic advantage to help in ASP and volume growth

ACEM's capacity is spread well geographically. Currently, about 60% of its capacity is in the high cement-consuming regions of India's North and East, which we believe is likely to operate at >80% utilisation for the next two years, and ~36% in the disciplined West market. East, with a per capita consumption of 140-150kg p.a. of cement (India: 200-250kg), provides volume growth potential and healthy ASP. It is slated to add 1.8mtpa of cement and 3.1mtpa of clinker capacity at Marwar Mundwa plant in North India. We expect capacity to come on stream when demand is widely expected to remain strong, any new expansion plans will be a boon for ACEM and we build in a ~11% volume CAGR over CY20-CY23F.

Cost savings played well but incremental savings look difficult

ACEM exercises good cost control due to modern plants, better grade limestone mines, and master supply agreement (MSA) benefits. Initiatives like dynamically changing fuel mix and investments in waste heat recovery cushion cost inflation; the recent surge in pet coke and coal prices will likely restrict any incremental savings. ACEM continues to focus on new product launches in the value-added and premium categories and has been increasing the share of blended cement to improve margins. We expect ACEM's cement unitary EBITDA to rise to Rs1,313/t by CY23F from Rs1,167/t in CY20.

Balance sheet remains strong

ACEM's balance sheet has remained strong over the years, and as of CY20 ACEM's net cash position declined to Rs29bn, after paying dividends of Rs37bn (Rs17/share), from Rs47bn in CY19. Net cash is likely to increase further to Rs58bn by CY23F even after factoring in capex (including maintenance) of Rs38bn over CY21F-CY23F.

Valuation supports fundamentals; initiate with Add

AT a CMP of Rs316, ACEM is trading at CY22F/CY23F EV/EBITDA of 15.2x/13.8x. Though current valuations are broadly in line with their long-term averages, we believe capacity constraints are likely to ease and help defend market share along with its increased focus on efficiency. Given improved volume demand visibility, better pricing environment, industry leading RoIC and healthy balance sheet, we initiate coverage with an Add rating and TP of Rs353 set at 12.5x Mar 2023F EV/EBITDA. Our target multiple is based on ACEM's implied past five-year average standalone EV/EBITDA. Downside risks: Demand slump in its key market, any major correction in cement prices, and delays in commissioning new capacities.

Analyst(s)

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Financial Summary	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (Rsm)	1,16,680	1,13,719	1,31,894	1,53,066	1,66,565
Operating EBITDA (Rsm)	21,490	26,466	31,331	37,561	40,657
Net Profit (Rsm)	15,287	17,901	21,007	25,457	27,520
Core EPS (Rs)	7.7	9.0	10.6	12.8	13.9
Core EPS Growth	18.0%	17.1%	17.4%	21.2%	8.1%
FD Core P/E (x)	41.00	35.01	29.84	24.62	22.78
DPS (Rs)	1.5	18.5	3.2	4.5	4.9
Dividend Yield	0.53%	5.85%	1.01%	1.42%	1.54%
EV/EBITDA (x)	27.00	22.59	18.83	15.40	13.99
P/FCFE (x)	35.89	31.86	40.54	29.41	30.85
Net Gearing	(21.0%)	(14.2%)	(17.0%)	(20.6%)	(23.0%)
P/BV (x)	2.82	3.09	2.88	2.67	2.48
ROE	7.1%	8.4%	10.0%	11.3%	11.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.00	1.03	1.02

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 18 MAY 2021

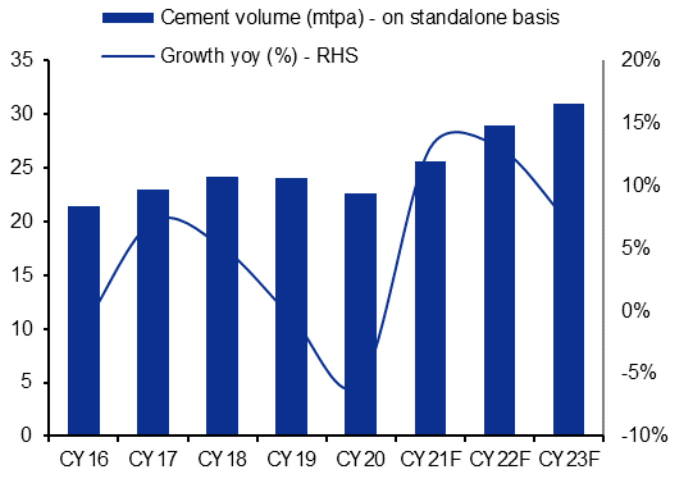
To benefit from demand growth

Market share sustenance to equal peer group

Strong demand outlook where ACEM has geographical advantage

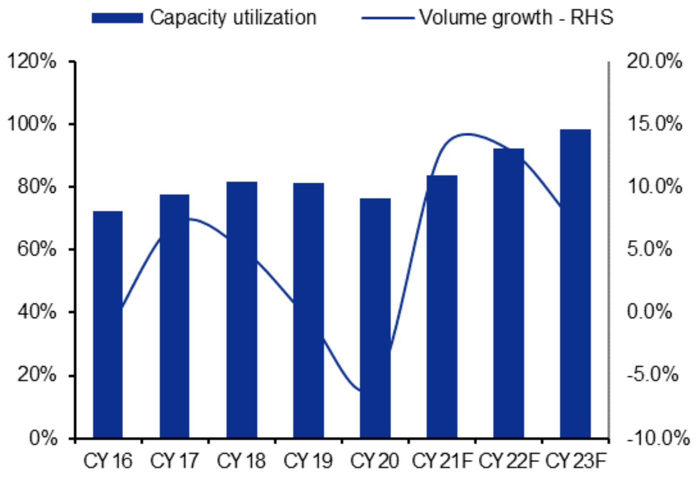
- With a phased relaxation of the nationwide lockdown last year, cement demand improved every month from Jun 2020. There was a seasonal dip in demand in Jul-Aug 2020 – demand picked up again and recovery started from Sep 2020 and accelerated further. Demand recovery has been strong in East, Central and North India led by low-cost housing and infrastructure. West India has started seeing demand improvement, but this remains relatively weak in South India. Over the medium term, ACEM expects all India cement demand to grow at ~5-7% on average (more than 15% in CY21, aided inter alia by a low base) mainly on the back of rural housing, which accounts for ~30% of cement consumption, and infrastructure segment, mainly railways, roads and housing for all, 20-25%.
- ACEM has a more concentrated presence in the North and East markets, accounting for nearly ~60% of the overall capacity. The company has no exposure to South India where utilisation is at sub-55% levels now. Both North and East India are high cement consuming regions, which we believe are likely to operate at >80% utilisation for the next two years (till CY23). We expect strong volume growth and better pricing discipline going forward in these markets.
- ACEM saw volume growth of only a ~1.3% CAGR over CY16-20 (below industry average) due to capacity constraints and lately due to COVID-19. In CY20, ACEM's volumes declined 5.6% yoy vs. ~7% decline on average for the top 15 cement players. Recently, during the annual general meeting (AGM), management shared its plan to reach ~50mtpa capacity (from the current 31.5mtpa, post ongoing expansion); however, ACEM did not specify timelines and regions for expansion. We believe growth recovery in West India and commissioning of capacities augur well for near-term growth, while further capacity addition will be key for ACEM to maintain market share. Therefore, we forecast ACEM's volume to grow ~13% yoy in CY21F and by ~13%/7% yoy in CY22F/CY23F, respectively.

Figure 83: ACC's volume has grown at par with the industry and continues to do so



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 84: ACC's utilisation levels to remain ahead of the industry due to capacity constraints

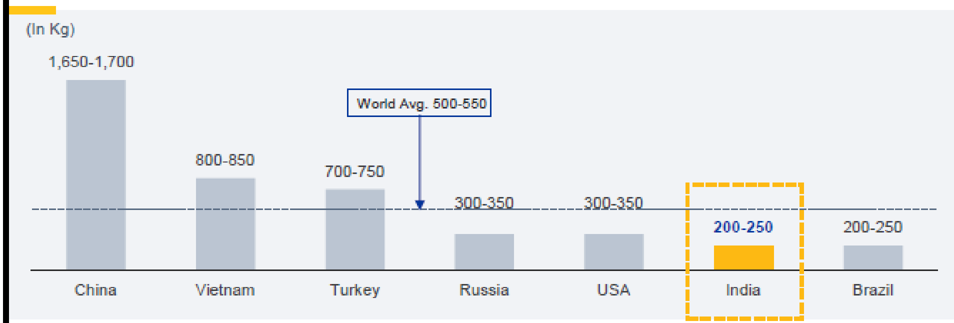


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 85: ACEM expects all-India cement demand to grow at ~15-17% in CY21 over CY20 on the back of rural housing and infrastructure segment

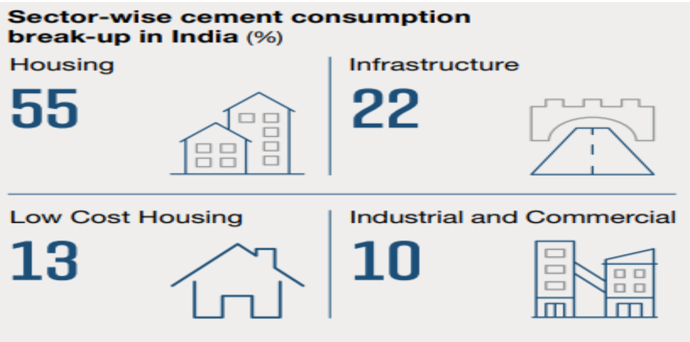
SOURCES: INCRED RESEARCH, ACEM 4QCY20 RESULT PRESENTATION

Figure 86: Lower per capita cement consumption in India (global average of 500-500kg) provides room for growth



SOURCES: INCRED RESEARCH, ACEM 4QCY20 RESULT PRESENTATION

Figure 87: Focus on infra and rural economy in Budget 2021 is likely to have a positive impact on India's cement industry



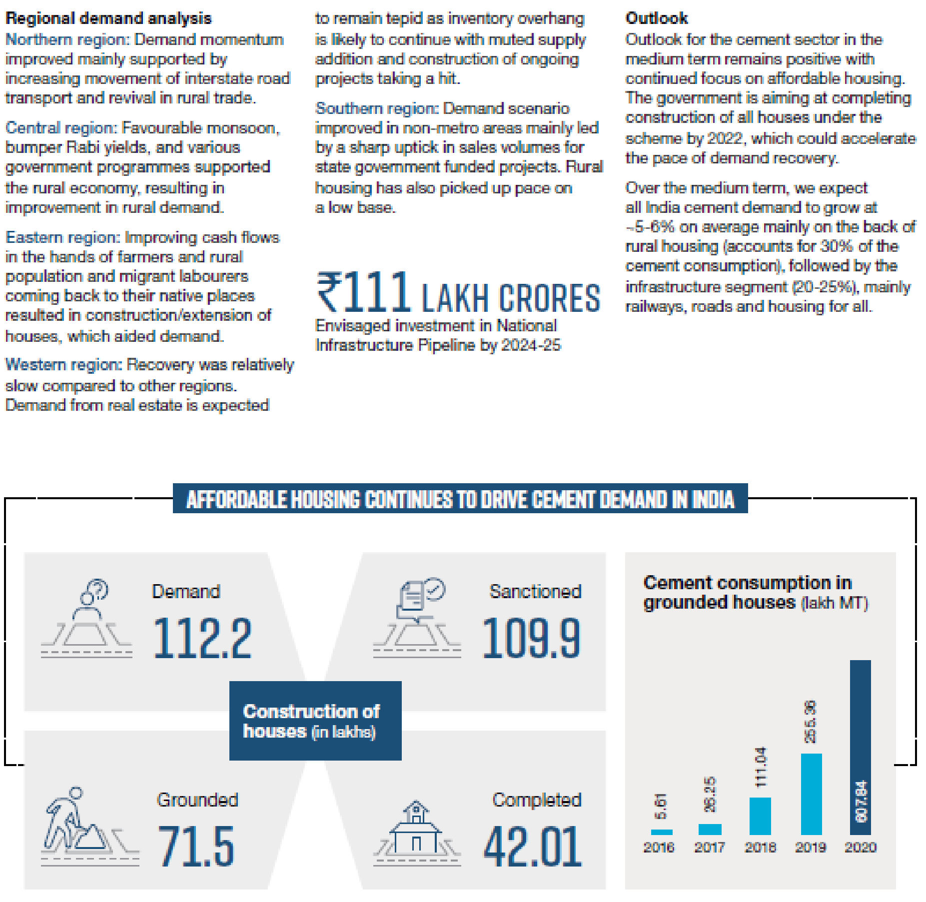
SOURCES: INCRED RESEARCH, ACEM CY20 ANNUAL REPORT

Figure 88: Rural demand aided by strong execution under PMAY-G (Rs bn)

	9MFY20	9MFY21
Rural development	935	1,573
Agriculture	843	976
Ministry of Road Transport and Highways	718	724

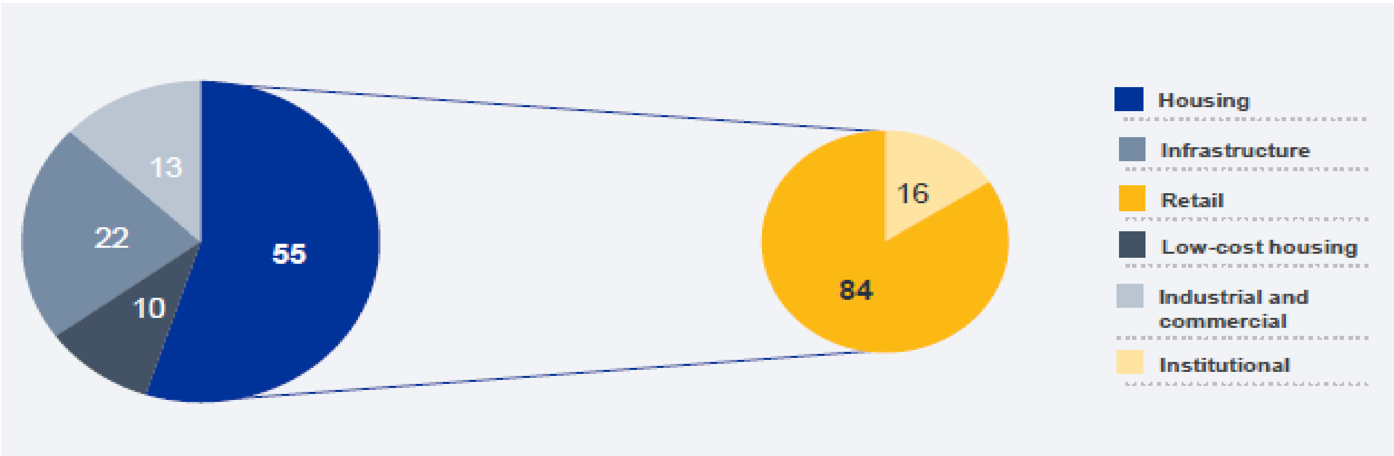
PMAY-G = PRADHAN MANTRI AWAAS YOJANA - GRAMIN
SOURCES: INCRED RESEARCH, ACEM 4QCY20 RESULT PRESENTATION

Figure 89: Affordable housing continues to be a key driver for cement industry



SOURCES: INCRED RESEARCH, ACEM CY20 ANNUAL REPORT

Figure 90: ACEM is focussed on IHB and housing remains the largest cement consumer (market share %) as at CY20



IHB = INDIVIDUAL HOUSE BUILDING
SOURCES: INCRED RESEARCH, ACEM 4QCY20 RESULT PRESENTATION

Capacity constraints to ease soon ➤

- ACEM has historically lagged its larger peers in organic capacity addition. Also, it has not followed inorganic capacity expansion on a standalone basis though it has sufficient headroom on its balance sheet. Between CY12 and CY20, the company only added 2.7mtpa of additional cement capacity (mostly through de-bottlenecking) while its peers aggressively expanded their capacities and footprints via organic and inorganic routes. Because of this, ACEM's standalone capacity market share fell over the same period.
- At its 38th AGM recently, management shared its medium-term growth target and plans to attain 50mtpa capacity vs 31.5mtpa currently (post ongoing

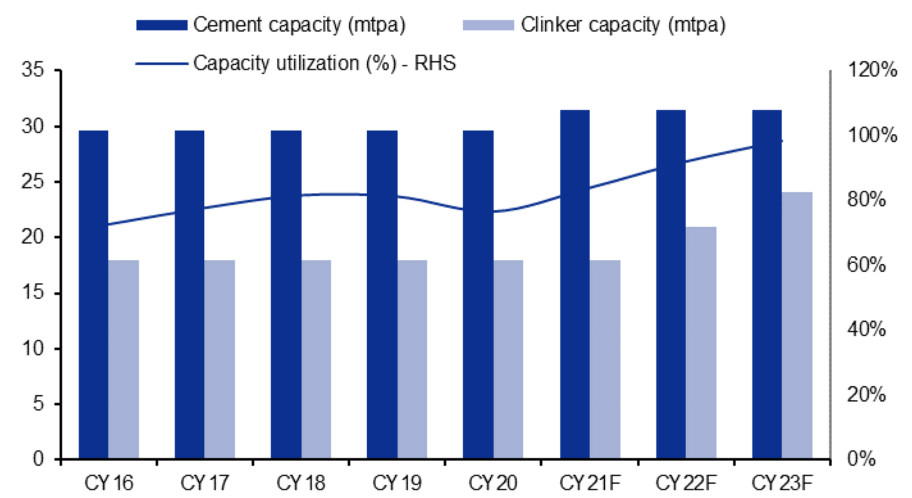
expansion at Marwar Mundwa) but did not specify timelines and regions for expansion. However, it indicated that East and West were attractive markets, and it was evaluating brownfield growth potential in these regions. Also, the company is exploring debottlenecking opportunities at existing plants to enhance production.

- The company is slated to add about 1.8mtpa of cement capacity and 3mtpa clinker at Marwar Mundwa plant in the North region by 3QCY21 (vs 2QCY21 earlier, delayed due to COVID-19 disruption) and will help in adding ~5mtpa p.a. to cement volume, taking its total cement capacity to 31.5mtpa and clinker capacity to 21mtpa. We believe capacity will come on stream at an opportune time when demand is widely expected to remain strong, and any new expansion plans will prove to be a boon for ACEM. Hence, the lack of capacity addition was a concern for the street till recently. We believe that driven by the COVID-19-related slowdown in FY21, new capacity will come in time for ACEM now.

Hopes to expand capacity in medium term

- Marwar Mundwa plant (3mtpa clinker and 1.8mtpa cement) is now likely to commence operations in 3Q21 (2Q earlier) and will help add 4mtpa to cement volumes.
- ACEM acquired a new limestone mining lease at Maldi Mopar. It has received environmental clearances and other required approvals for the lease and expects to commission the project by 3QCY21. The project requires a total capex of ~Rs2bn.
- It has acquired a new mining lease at Lodhva (Gujarat). The environmental clearance and other required approvals for the mining lease have already been obtained. The land acquisition process is in progress, along with the development and infrastructure work.
- A new railway siding project is in progress at the Rabriyawas unit in Rajasthan at a capex of ~Rs2.1bn. The company expects to complete the project by 3QCY21.
- Underground mining at Gare Palma Sector IV/8 should be commissioned by 3QCY21. Gare Palma coal block has a rated capacity of 1mtpa.
- ACEM is focused on adding 54MW of waste heat recovery system (WHRS)/solar plants by 2022 at Darlaghat and Bhatapara plants at a total investment of ~Rs4bn.
- ACEM has acquired a new mining lease at the Nandgaon Ekodi mine to ensure long-term limestone requirements for the Maratha Cement Works plant in Chandrapur, Maharashtra. Environmental clearance and other required approvals for mining are in progress.

Figure 91: ACEM's capacity utilisation to remain high leading to muted capacity addition in the near term



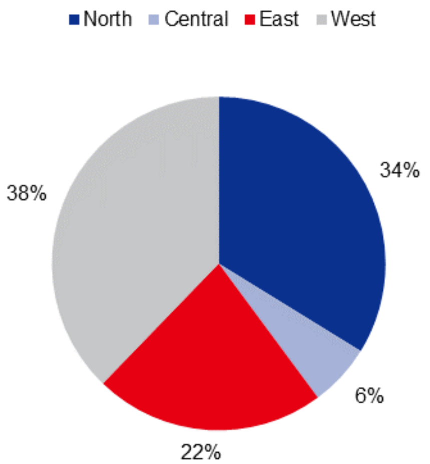
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 92: ACEM's expansion (cement and clinker) is on track and likely to commissioned by 3QCY21F

Region	FY20			FY21F		
	Cement (mtpa)	Clinker (mtpa)	CC ratio (x)	Cement (mtpa)	Clinker (mtpa)	CC ratio (x)
North	11.3	6.8	1.7	13.1	9.9	1.3
West	11.2	6.5	1.7	11.2	6.5	1.7
East	7.2	4.6	1.6	7.2	4.6	1.6
Total	**29.7**	**17.9**	**1.7**	**31.5**	**21**	**1.5**

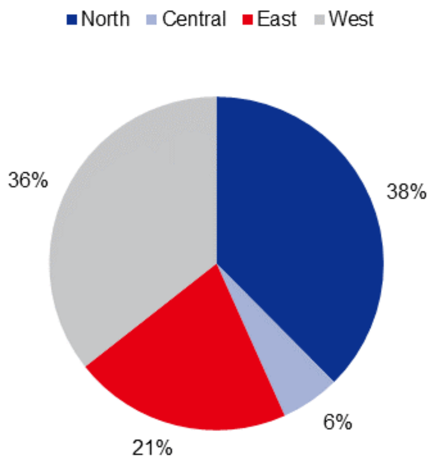
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 93: Current region-wise distribution of cement capacity of total of 29.7mtpa



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 94: Post the Marwa Mundwa expansion, North region capacity share will increase significantly



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 95: Capacity to be 31.5mtpa post Marwar Mundwa plant expansion by 3QCY21

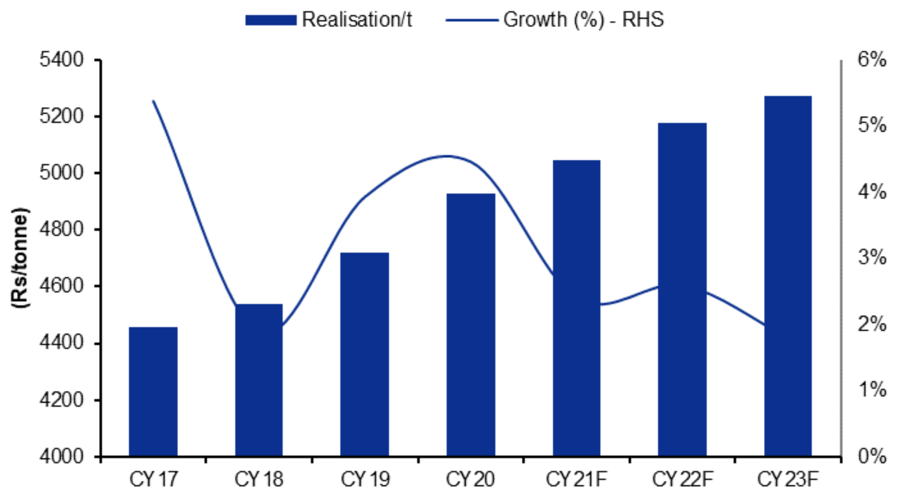
SOURCES: INCRED RESEARCH, ACEM 4QCY20 RESULT PRESENTATION

Higher trade and premium sales favour realisations along with better market mix

- ACEM has always been more focused on the northern and western markets due to its historically stronger presence in these markets. Since both regions have better utilisation rates vs. the national average, the volatility witnessed in price hikes and subsequent roll backs have been the least in both regions.

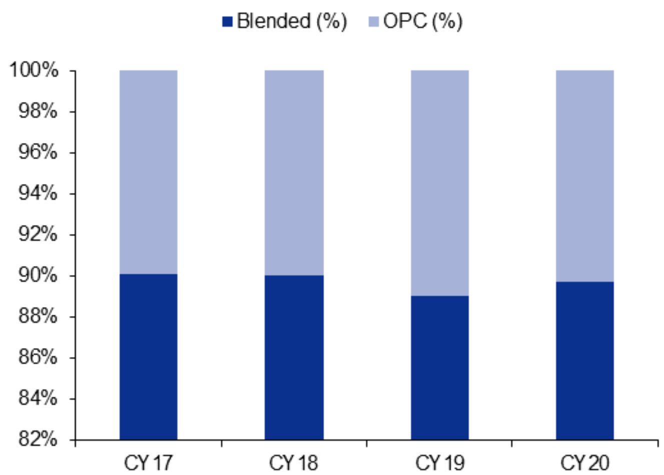
- Trade cement accounted for more than 80% of total sales in the last couple of years, which, along with higher premium products, was a major supporting factor for blended realisation, which we expect to continue in ensuing quarters. Premium/special products currently account for ~12% of total trade, vs 8% at the beginning of CY20. The share of blended cement increased to ~90% in CY20 from 89% in CY19. ACEM plans to enter Bihar, Madhya Pradesh, and eastern Uttar Pradesh and has appointed ~600 dealers in these three markets.
- ACEM continues to focus on increasing realisations through special sub brands. In CY16, the company launched Roof Special brand and in CY17, Ambuja Compocem and Ambuja Plus Cool Walls brands. In CY18, as a substitute to river sand, ACEM launched Ambuja Purasand. In CY20, ACEM launched Ambuja Kawach, a water-repellent cement in the premium category (sold ~0.2mtpa in CY20). We expect its focus on increasing sales of these brands to lead to superior realisation growth for the company.
- ACEM's realisations are ~4-5% higher than its peers. While this is partly on account of its regional mix, it also factors in the company's strong brand and market position in select markets, and a higher share of trade sales – particularly in the last few years as its volume growth lagged its peers. We factor in 2.2% realisation CAGR over CY21F -CY23F.

Figure 96: ACEM's realisation to be resilient, given it has the best market mix



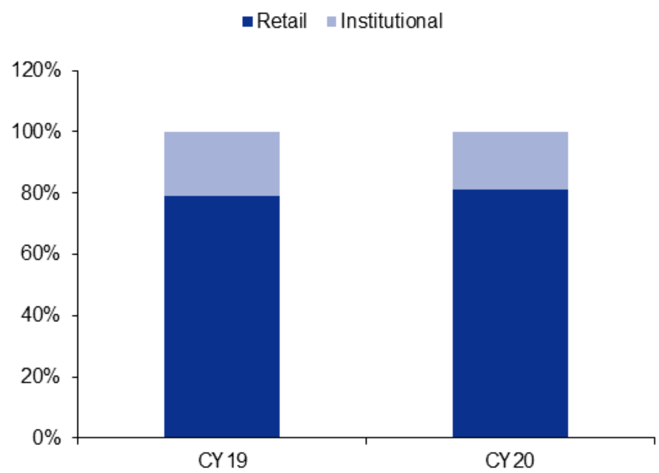
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 97: Blended cement remained stagnant over the years



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 98: Trade cement was >80% of total sales for CY19-20



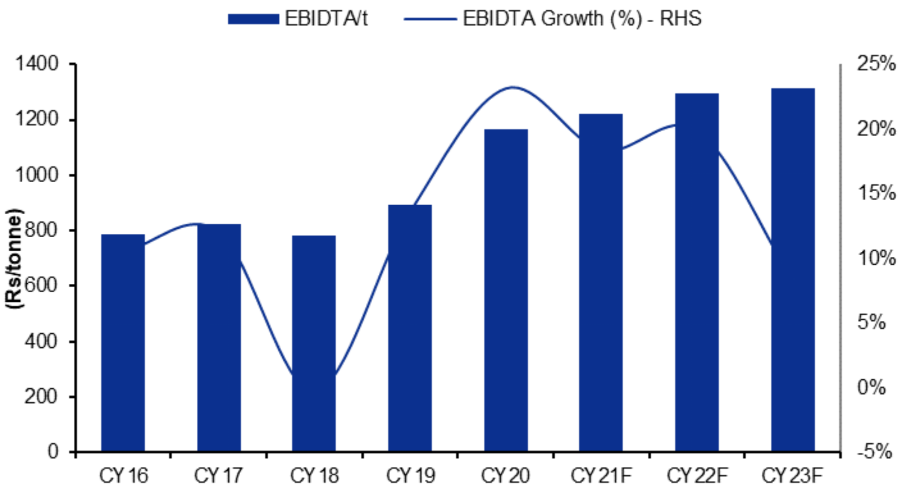
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Cost efficiency to kick in, but near-term pain intact

Cost-saving initiatives contributed significantly in CY20; input cost escalation may negate some savings in medium term

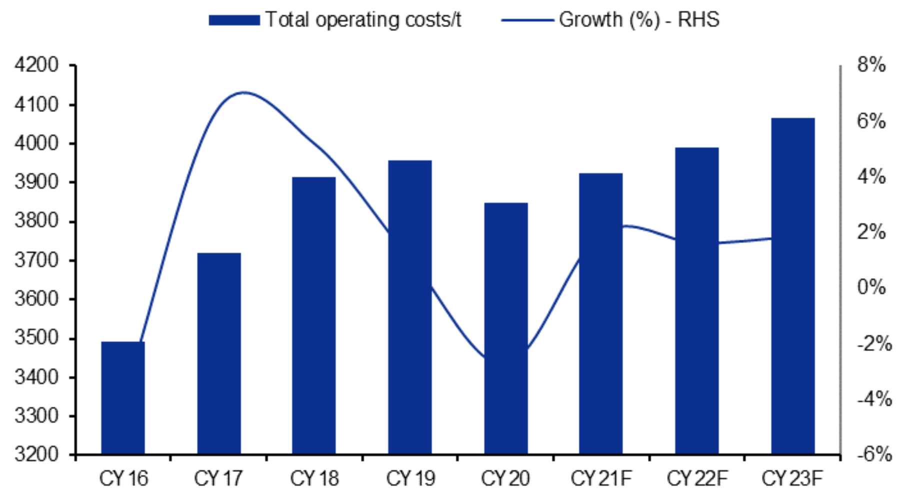
- ACEM has modern plants and thus is more profitable than ACC. More than ~80% of ACEM's nameplate capacity was constructed after 2000, but it continues to have one of the highest freight costs in the industry. This negates ACEM's competitiveness stemming from having one of the lowest raw material costs in the industry vs. comparable peers.
- A few cost-saving measures/initiatives were taken in CY20 and plans for further savings are as follows:
  - Cost-saving initiatives led to Rs200/t of lower costs in CY20, partly driven by cost control during COVID-related lockdowns. ACEM strives to sustain these savings even as some discretionary costs return. Further cost-saving benefits will be visible in CY22F/23F when the new clinker line is fully ramped up.
  - In CY20, the company initiated a unique, all-encompassing cost leadership initiative to bridge the cost gap with competitors. The initiatives are in manufacturing and logistics, for example, the Transport Analytics Centre (TAC) and Model Warehouse programmes.
  - **Benefits of MSA:** MSA accrued benefits of Rs2.5bn across the two companies – more than 5% of profit before tax for ACEM (ACC at 5%). Both companies have renewed the MSA for three years and expect similar savings going forward. We believe a similar run-rate of benefits to continue ahead.
  - Green power was 5% of total power consumption. ACEM attempts to increase it to 38% in two years:
    a) WHRS will increase from 2% currently to ~20%. Current WHRS capacity is 6.5MW, which is in the process of being increased by 53.4MW. Post this, Ambuja is evaluating the addition of another 30MW. WHR capex is ~Rs90m/MW.
    b) Similarly, the share of solar power is expected to increase to 15% by CY22F from the current 2%.
  - ACEM usually maintains 2-3 months of coal / pet coke inventory.
- However, pet coke/international coal prices have increased sharply and companies partly passing on rising input costs by way of price hikes could see an impact on per unit margins in the nearer term.
- We believe these cost benefits will sustain in the longer term via increased cost efficiency measures such as improving blending ratio, higher direct despatches, source-mix optimisation, increasing share of alternative fuels and raw material (AFR), WHRS and solar energy, etc. ACEM continues to focus on new product launches in the value-added and premium categories and has been increasing the share of blended cement in its overall product mix to improve margins. We expect ACEM's cement unitary EBITDA to rise to Rs1,313/t by CY23F from Rs1,167/t in CY20.

Figure 99: ACEM's unitary EBITDA to improve in CY22F/23F post a marginal decline in CY21F due to escalation in input costs



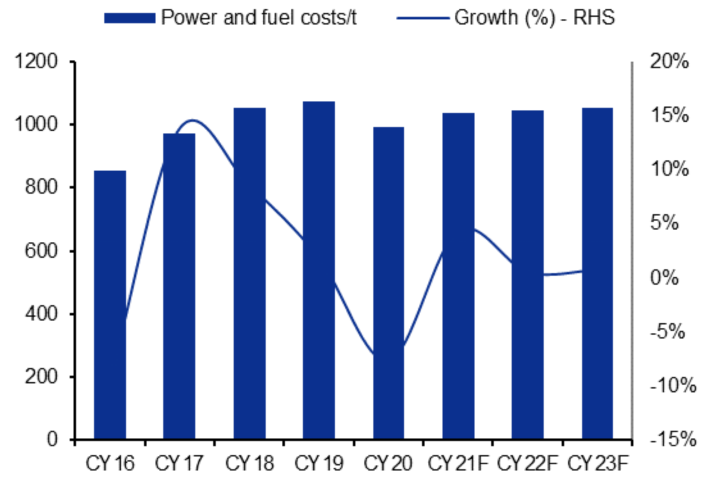
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 100: ACEM's total operating cost to increase significantly in CY21F and post that due to acceleration in volumes



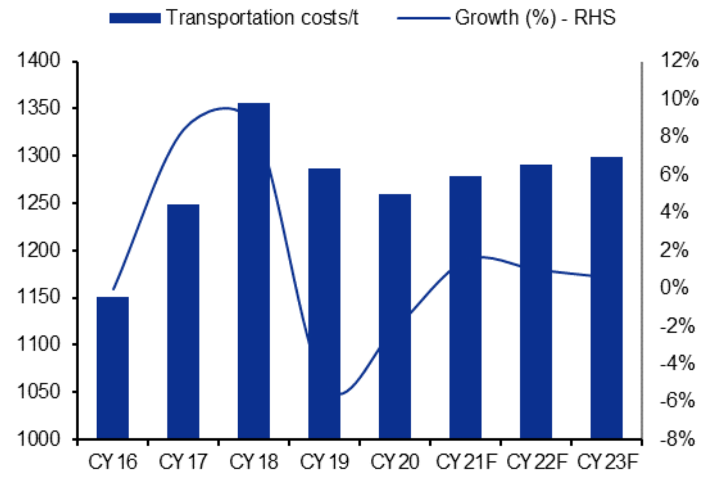
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 101: ACEM's P&F costs to increase in CY21F amid higher pet coke/coal prices



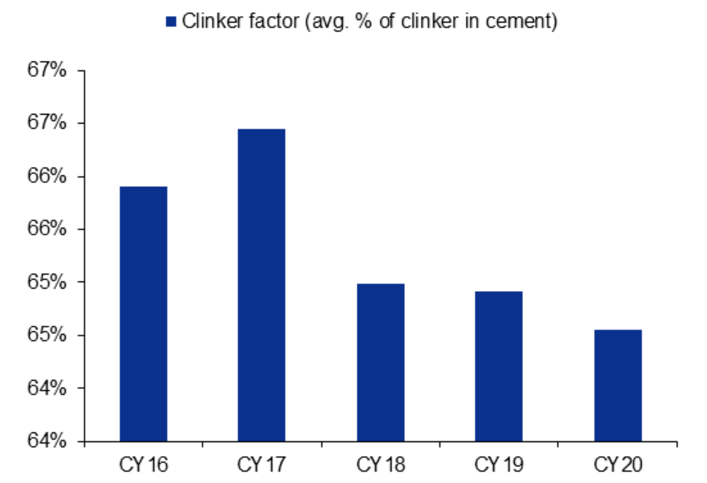
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 102: Recent increase in diesel prices to raise ACEM's logistics costs in CY21F



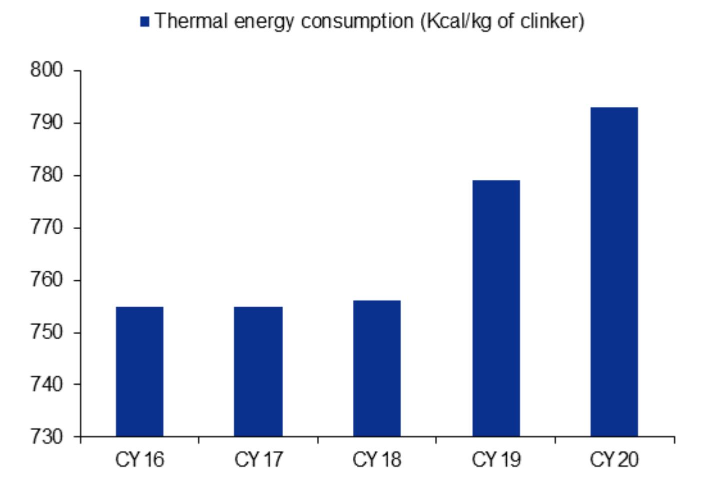
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 103: Clinker factor remained steady



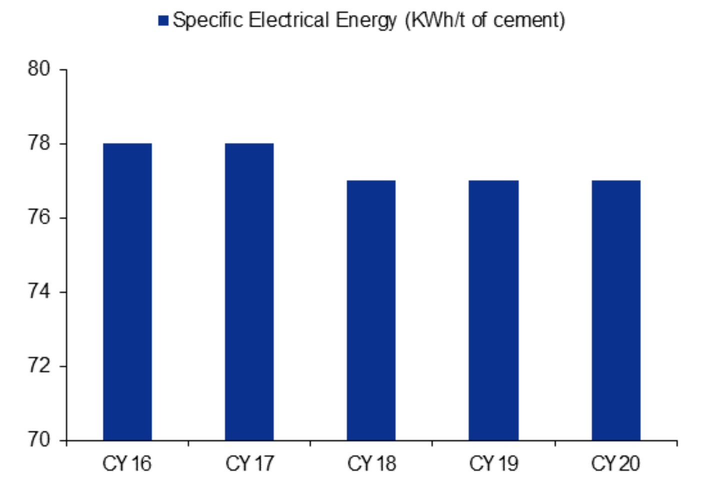
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 104: ACEM's fuel consumption increasing



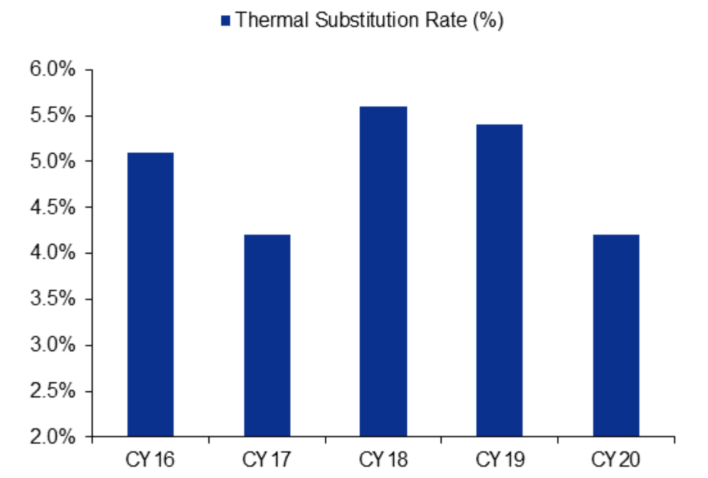
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 105: ACEM's power consumption norms remained steady



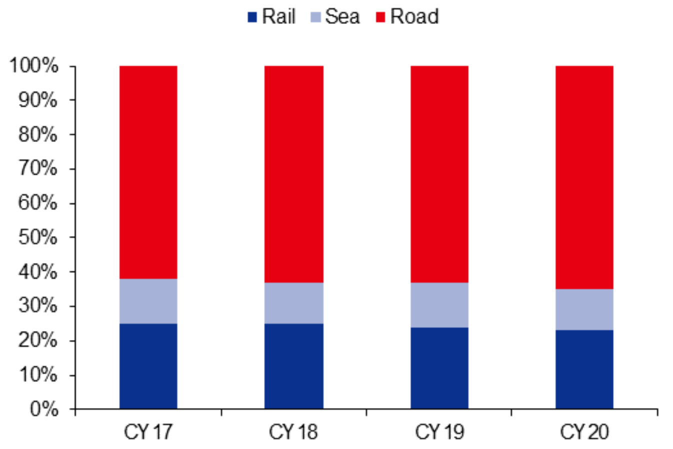
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 106: ACEM's thermal substitution rate fell sharply in CY20



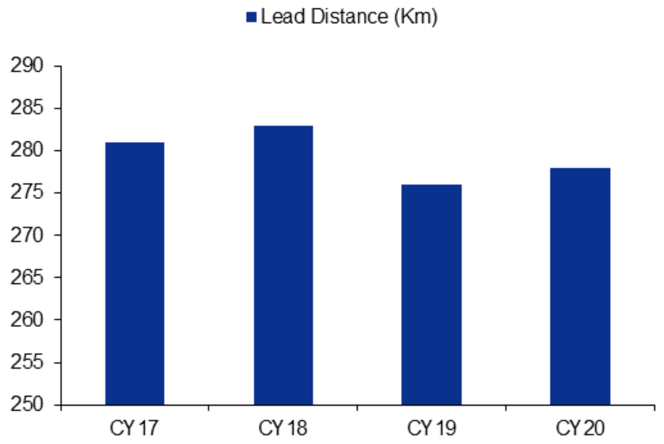
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 107: ACEM's freight mix remained similar over C17-20



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 108: ACEM's lead distance was constant over the years



SOURCES: INCRED RESEARCH, COMPANY REPORTS

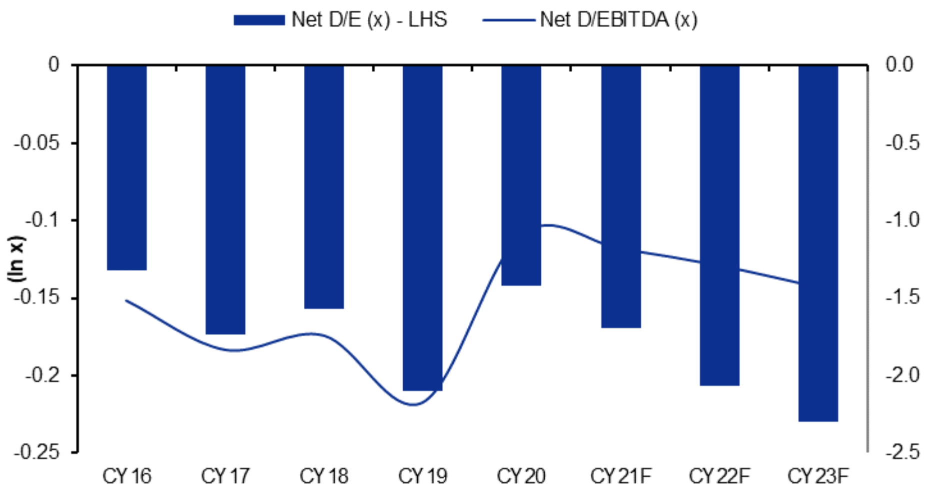
Balance sheet strength – a key positive

Rising profitability to strengthen balance sheet further; return ratios unlikely to trace previous cycle

Since CY10, ACEM has not invested adequately in capacity creation, neither organically nor inorganically, in our view. The company's adjusted return ratios appear healthy and are better than many peers in the cement industry; however, reported ROE/ROCE are distressed as ACEM issued shares in CY16 to acquire a stake in ACC. This led to an increase in shareholder equity, which accounts for dividend income in standalone P&L from ACC as other income.

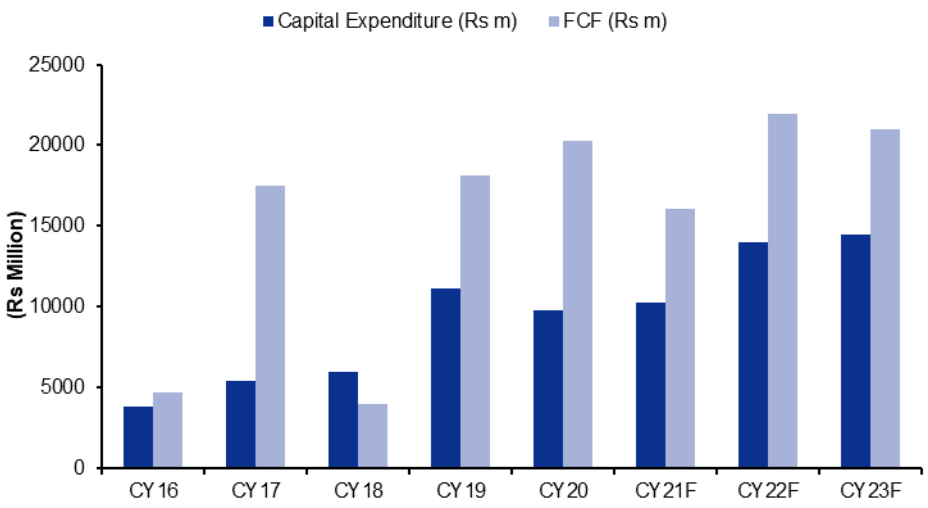
As at CY20, ACEM's net cash position declined to Rs29bn from Rs47bn in CY19 after paying dividends of Rs37bn (Rs17/share). The same is likely to increase further to Rs58bn by CY23F even after factoring in capex (including maintenance) of Rs38bn over CY21F-CY23F.

Figure 109: Decreased capex spends in coming years to expand net cash in CY21F



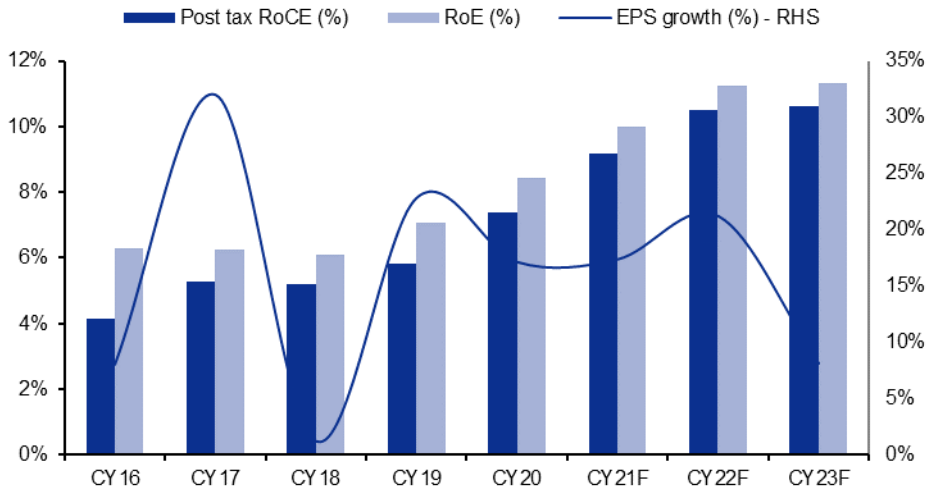
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 110: Capex remained steady over CY16-20; FCF post capex to result in higher net cash position



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 111: Return ratios to improve going forward



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Initiate with Add rating, CY22F TP of Rs353

Valuation

- Due to high-capacity utilisation and limited room for capacity ramp-up due to lower capacity addition historically, ACEM's growth has lagged peers. With the commissioning of Marwar Mundwa capacity by 3QCY21, ACEM's capacity constraints are likely to ease. After a ~6% yoy volume decline in CY20, we assume a 13% yoy recovery in CY21F followed by a 13%/7% yoy growth in CY22F/23F, respectively. We estimate volume and EBITDA per tonne CAGR of 11% and 4% over CY20-CY23F.
- At a CMP of Rs316, ACEM is trading at CY22F/CY23F EV/EBITDA of 15.2x/13.8x, respectively. We initiate coverage on the company with an Add rating with capacity constraints likely to ease and to help defend market share along with the company's increased focus on efficiency. Our target price of Rs353 is set at 12.5x March 2023F EV/EBITDA. Our target multiple is based on ACEM's average implied standalone EV/EBITDA of the past five years, which is at a discount to its large-cap peers. Our TP includes the value of its 50.05% stake in ACC. For this, we have valued ACEM's stake in ACC as our target price (for ACC) and assigned a 20% holding company discount. The company has net cash on books which cushions ACEM's valuations.

Figure 112: SOP valuation (standalone) based on 12.5x Mar 2023F EV/EBITDA

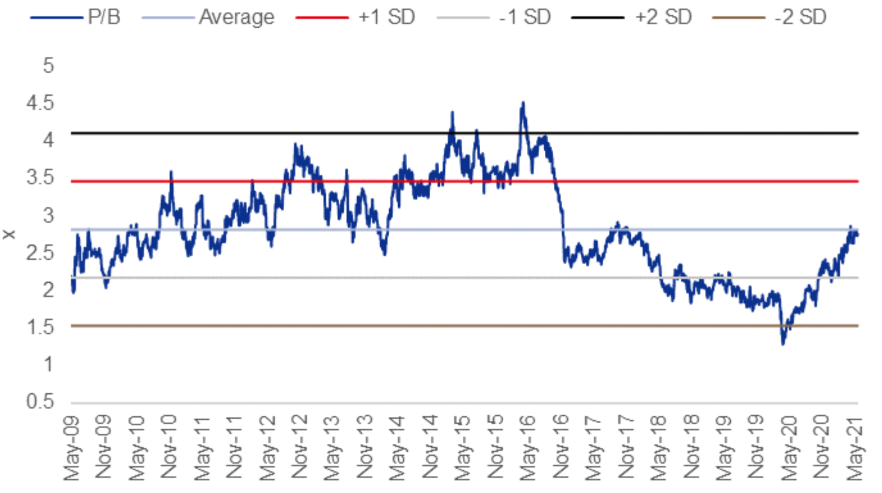
Valuation	**TP**
Target EV/EBITDA (x)	12.5
Target EV (Rs m)	4,69,496
Net debt (Rs m) (as on CY22F)	(48,365)
Target market cap (Rs m)	5,17,861
No. of shares (m)	1,986
TP per share for core ACEM (Rs)	261
Holding company discount (%)	20%
ACEM stake in ACC (Rs m)	1,50,830
Proportionate 50% stake in ACC – Rs per share	78
Target price per share (Rs)	**353**

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 113: We value the stock at 12.5x Mar 2023F EV/EBITDA to arrive at Rs353 TP

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 114: ACEM trading at P/BV at c.2.5x for CY22F



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Risks

Downside risks ➤

- Any further slowdown in cement demand. Cement demand growth was badly impacted in early CY20 due to the COVID-19 pandemic. Any prolonged slowdown in general construction activities across the country might impact ACEM's volume growth.
- Demand slump in the key market of West India (due to a partial lockdown in Maharashtra) could impact the company's volume growth.
- Higher-than-expected increases in raw material prices, particularly crude and rubber.
- Any correction in cement prices/ further rise in input costs and sustaining over the medium term could hit realisations and EBITDA/t.
- Any potential increase in royalty to parent.
- Any further delay in commissioning of new capacities.

Introduction and management profile

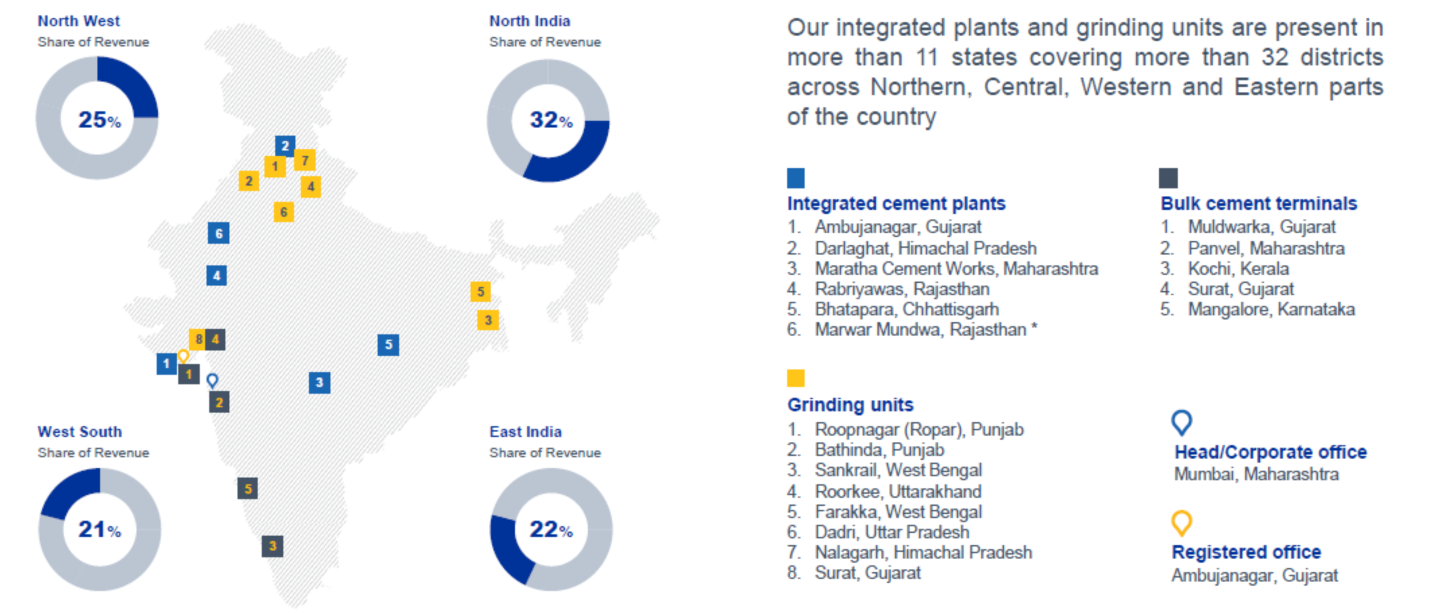
Company background

- ACEM is a part of the LafargeHolcim Group company, with the parent holding 63% of ACEM through its special purpose vehicle, Holderind Investments, and in turn owning 50.05% of ACC, resulting in a consolidation of ACC's financials in its books.
- It is the fourth-largest cement company in India, with current 29.6mtpa of capacity (five integrated cement manufacturing plants, eight cement grinding units, five bulk cement terminals, five CPPs, and 18 mining leases across the country) in all regions, ex-South. It has ~8% market share across the North, East, North-West and West-South Indian markets. While including its 50%-owned subsidiary, ACC, ACEM's consolidated capacity stands at ~63mt, with a 13% market share.
- Upcoming capex: (a) clinker (3mtpa) and cement (1.8mtpa) capacities at Marwar Mundwa in Rajasthan with a total capex of Rs23.5bn. (b) WHRS plants at Darlaghat, HP (21.1MW) and Bhatapara, Chhattisgarh (18.3MW); capex to be completed by CY22F. (c) A new railway siding project at the Rabriyawas unit in Rajasthan to be completed by 3QFY21 with an investment of ~Rs2.1bn.
- Share of revenues from value-added products stood at 11% in CY20 vs. 8% in CY19. Portfolio of value-added products comprise Ambuja Plus, Ambuja Compocem, Ambuja Cool Wall, Blockol, Ambuja Masonry Products, Tile Adhesives, Wall Putty, Ready Mix Plaster, and Waterproofing Solutions. ACEM launched a specialised product (water repellent cement) Ambuja Kawach (PPC) in Dec 2019. It has ~33% less carbon footprint vs. OPC products. It was launched in several markets, reaching ~5,000 dealers in 15 states and sold 0.53mtpa in CY20.
- As of CY20, ACEM had a dealer network of more than 9,500, ~8,000 contractor partnerships, and a retailer network of +35,000. The company added 600 channel partners in CY20. ACEM plans to enter the Indian states of Bihar, Madhya Pradesh, and eastern Uttar Pradesh and has appointed ~600 dealers in these three markets.
- The company had 7,681 active vendors and contractors and 1,547 suppliers were assessed in CY20 for sustainability risks.
- Cash & cash equivalents stood at Rs27.2bn in CY20 vs. Rs45bn in CY19. The company had given an interim dividend of Rs17/share in CY20.

Figure 115: ACEM is a part of LafargeHolcim Group, with the parent holding 63% through its vehicle, Holderind Investments

SOURCES: INCRED RESEARCH, ACEM 4QCY20 RESULT PRESENTATION

Figure 116: ACEM has a strong presence in India with strategically-located plants. It accounted for ~8% of market share in CY20



*TO BE COMMISSIONED BY 3QCY21
SOURCES: INCRED RESEARCH, ACEM 4QCY20 RESULT PRESENTATION

Figure 117: ACEM's Sustainable Development Plan 2030 remains aggressive

SUSTAINABLE DEVELOPMENT AMBITION 2030

In line with the sustainability strategy of LafargeHolcim, Ambuja Cement's Sustainable Development Ambition 2030 provides critical thrust to our goal of achieving sustainable growth. It provides us with a broad framework for strategic interventions to meet the challenges across four thematic areas—Climate, Circular Economy, Environment, and Community.

	Climate	Circular Economy	Environment	Community
Lead metrics	**CO_2 emissions reduced** (kg CO_2/t of cement)	**Waste reused** (Million tonnes)	**Water saved** (Freshwater withdrawal: L/t of cement)	**Value shared** (Million new beneficiaries)
Performance 2020	531	8.2	77	0.3
Target 2030	463	13.5	<75	0.8
SDGs impacted	13 CLIMATE ACTION	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	6 CLEAN WATER AND SANITATION	11 SUSTAINABLE CITIES AND COMMUNITIES

*Other than the above identified Sustainable Development Goals (SDGs), our activities under the four pillars also address various sub-targets of other SDGs.

SOURCES: INCRED RESEARCH, ACEM CY20 ANNUAL REPORT

ACEM's product portfolio ➤

Figure 118: High-strength and high-performance PPC, OPC and blended cement across grades

PPC = POZZOLANA PORTLAND CEMENT, OPC = ORDINARY PORTLAND CEMENT
SOURCES: INCRED RESEARCH, ACEM 4QCY20 RESULT PRESENTATION

Figure 119: ACEM focus remains on special products

SOURCES: INCRED RESEARCH, ACEM 4QCY20 RESULT PRESENTATION

Key management profile ➤

- The board currently comprises 15 members with one executive director, five non-executive directors and independent directors and nine other non-executive directors.
- There have been significant management changes at ACC and ACEM with new CEOs and CFOs in both. Mr. Neeraj Akhoury's move to Ambuja Cement as a CEO from ACC in early CY20 has allowed for better collaboration between the two companies and early signs of progress on realisation of MSA (synergy) gains.
- In CY18, ACC appointed Ms. Rajani Kesari as the new CFO, replacing Mr. Sunil Nayak. She has over 28 years of leadership experience and was the Head of Finance for the LafargeHolcim Group's Asia Region. She joined LafargeHolcim from Schneider Electric where she was the CFO for the East Asia and Japan zone.

Mr. N. S. Sekhsaria, Chairman – Mr. Sekhsaria is the principal founder of the company. A first-generation industrialist, Mr. Sekhsaria obtained his Bachelor's in Chemical Engineering from the University of Bombay. As ACEM's Principal Founder-Promoter, he was the chief executive and managing director of the company from its inception in April 1983, until January 2006. Mr. Sekhsaria relinquished the post of managing director and was appointed the Non-executive Vice Chairman when management control of the company was transferred to Holcim.

Mr Neeraj Akhoury, Managing Director and CEO – He began his career with Tata Steel in 1993 and joined Lafarge SA Group (LafargeHolcim Group since Jul 2015) in 1999. He was a Member of the Executive Committee of Lafarge India, heading Corporate Affairs, followed by Sales in 2011. He moved to Nigeria as

CEO and Managing Director of Lafarge AshakaCem PLC. Thereafter, he was appointed Strategy & Business Development Director for the Middle East & Africa at the Lafarge headquarters in Paris. He has also served as CEO of Lafarge Surma Cement Limited and as Country Representative of LafargeHolcim Bangladesh. Mr Akhoury has a degree in Economics from Allahabad University, followed by a one-year management programme from XLRI, India. He is an alumnus of the Harvard Business School (General Management).

Figure 120: LHN and India subsidiaries – key management changes

Names	Designations	Since
Jan Jenisch	Deputy Chairman – ACC Vice Chairman – ACEM	CEO of LHN from Oct 2017
3) ACC		
Sridhar Balakrishnan	MD & CEO	Feb 2020
Rajani Kesari	CFO	Aug 2019
4) Ambuja		
Neeraj Akhoury	MD & CEO	Feb 2020 & on board of ACC
Sonal Shrivastava	CFO	May 2019

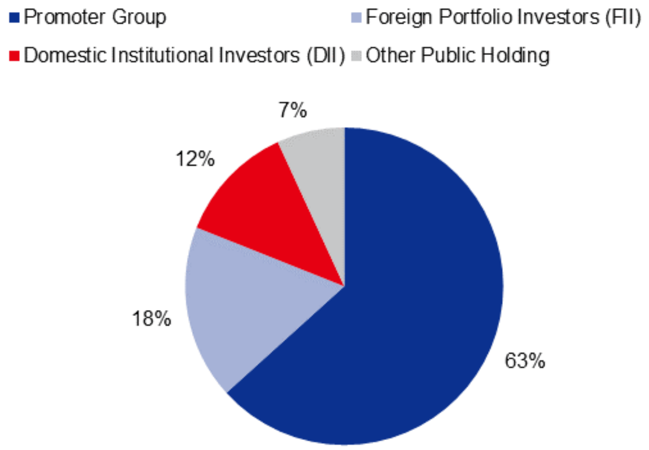
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 121: ACEM's board of directors

Names	Designations
Mr. N.S. Sekhsaria	Chairman
Mr. Neeraj Akhoury	MD & CEO
Mr. Jan Jenisch	Vice Chairman
Mr. Nasser Munjee	Independent Director
Mr. Rajendra P. Chitale	Independent Director
Mr. Shailesh Haribhakti	Independent Director
Dr. Omkar Goswami	Independent Director
Ms. Shikha Sharma	Independent Director
Mr. Ranjit Shahani	Non-Executive Directors
Mr. Christof Hassig	Non-Executive Directors
Mr. Martin Kriegner	Non-Executive Directors
Mr. Praveen Kumar Molri	Non-Executive Directors
Mr. Ramanathan Muthu	Non-Executive Directors
Ms. Then Hwee Tan	Non-Executive Directors
Mr. Mahendra Kumar Sharma	Non-Executive Directors

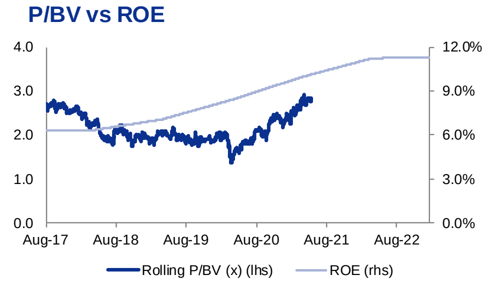
SOURCES: INCRED RESEARCH, COMPANY REPORTS

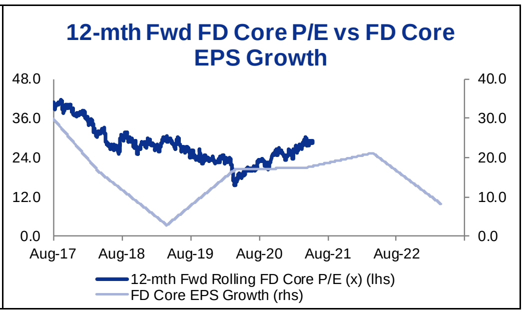
Figure 122: Shareholding pattern as at 31 Mar 2021



SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	**1,16,680**	**1,13,719**	**1,31,894**	**1,53,066**	**1,66,565**
Gross Profit	**1,16,680**	**1,13,719**	**1,31,894**	**1,53,066**	**1,66,565**
Operating EBITDA	**21,490**	**26,466**	**31,331**	**37,561**	**40,657**
Depreciation And Amortisation	(5,438)	(5,212)	(5,337)	(5,604)	(5,940)
Operating EBIT	**16,051**	**21,254**	**25,994**	**31,957**	**34,717**
Financial Income/(Expense)	(835)	(831)	(847)	(868)	(890)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	4,265	3,720	3,050	3,081	3,112
Profit Before Tax (pre-EI)	**19,481**	**24,144**	**28,197**	**34,170**	**36,939**
Exceptional Items					
Pre-tax Profit	**19,481**	**24,144**	**28,197**	**34,170**	**36,939**
Taxation	(4,195)	(6,243)	(7,190)	(8,713)	(9,419)
Exceptional Income - post-tax					
Profit After Tax	**15,287**	**17,901**	**21,007**	**25,457**	**27,520**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**15,287**	**17,901**	**21,007**	**25,457**	**27,520**
Recurring Net Profit	15,287	17,901	21,007	25,457	27,520
Fully Diluted Recurring Net Profit	**15,287**	**17,901**	**21,007**	**25,457**	**27,520**

Cash Flow

(Rs mn)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	21,490	26,466	31,331	37,561	40,657
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(10,305)	(7,764)	(6,861)	4,251	1,858
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	4,265	3,720	3,050	3,081	3,112
Other Operating Cashflow	14,421	10,714			
Net Interest (Paid)/Received	(835)	(831)	(847)	(868)	(890)
Tax Paid	(4,195)	(6,243)	(7,190)	(8,713)	(9,419)
Cashflow From Operations	**24,840**	**26,062**	**19,482**	**35,312**	**35,318**
Capex	(11,114)	(9,778)	(10,260)	(14,000)	(14,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	3,736	3,363	6,237		(500)
Cash Flow From Investing	**(7,379)**	**(6,415)**	**(4,023)**	**(14,000)**	**(15,000)**
Debt Raised/(repaid)		26			
Proceeds From Issue Of Shares			(1)	(1)	(1)
Shares Repurchased					
Dividends Paid	(3,340)	(36,646)	(6,302)	(8,909)	(9,632)
Preferred Dividends					
Other Financing Cashflow	(548)	(984)	(1,000)	(1,000)	(1,000)
Cash Flow From Financing	**(3,888)**	**(37,604)**	**(7,303)**	**(9,911)**	**(10,633)**
Total Cash Generated	13,574	(17,957)	8,157	11,401	9,685
Free Cashflow To Equity	**17,462**	**19,674**	**15,460**	**21,312**	**20,318**
Free Cashflow To Firm	**18,297**	**20,478**	**16,307**	**22,180**	**21,208**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	46,995	29,243	37,400	48,801	58,486
Total Debtors	5,132	1,915	4,698	5,032	5,476
Inventories	9,541	7,466	11,563	13,000	13,690
Total Other Current Assets	7,195	5,684	6,595	7,959	9,494
Total Current Assets	**68,863**	**44,308**	**60,256**	**74,793**	**87,147**
Fixed Assets	58,125	55,575	62,738	69,635	76,695
Total Investments	1,17,890	1,17,922	1,17,922	1,17,922	1,17,922
Intangible Assets	11,087	18,737	12,500	12,500	13,000
Total Other Non-Current Assets	13,943	18,271	16,031	17,531	19,031
Total Non-current Assets	**2,01,045**	**2,10,506**	**2,09,192**	**2,17,588**	**2,26,648**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	9,360	8,809	10,753	12,425	13,307
Other Current Liabilities	35,114	36,626	35,611	41,328	44,973
Total Current Liabilities	**44,474**	**45,435**	**46,365**	**53,752**	**58,279**
Total Long-term Debt	353	436	436	436	436
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,029	5,784	4,784	3,784	2,784
Total Non-current Liabilities	**3,381**	**6,220**	**5,220**	**4,220**	**3,220**
Total Provisions					
Total Liabilities	**47,856**	**51,655**	**51,585**	**57,972**	**61,499**
Shareholders Equity	2,22,052	2,03,159	2,17,863	2,34,409	2,52,296
Minority Interests					
Total Equity	**2,22,052**	**2,03,159**	**2,17,863**	**2,34,409**	**2,52,296**

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	2.7%	(2.5%)	16.0%	16.1%	8.8%
Operating EBITDA Growth	13.6%	23.2%	18.4%	19.9%	8.2%
Operating EBITDA Margin	18.4%	23.3%	23.8%	24.5%	24.4%
Net Cash Per Share (Rs)	23.49	14.51	18.62	24.36	29.23
BVPS (Rs)	111.83	102.31	109.72	118.05	127.06
Gross Interest Cover	19.22	25.59	30.69	36.80	39.01
Effective Tax Rate	21.5%	25.9%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	21.7%	204.7%	30.0%	35.0%	35.0%
Accounts Receivables Days	15.38	11.31	9.15	11.60	11.51
Inventory Days	34.91	27.29	26.33	29.29	29.24
Accounts Payables Days	39.22	38.00	35.50	36.62	37.30
ROIC (%)	26.5%	34.2%	38.4%	44.4%	43.9%
ROCE (%)	7.4%	10.0%	12.3%	14.1%	14.2%
Return On Average Assets	6.2%	7.1%	8.3%	9.4%	9.4%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Company Note

Cement | India | May 20, 2021

Ramco Cements Ltd

Deserves a premium valuation

- TRCL is the 6th largest cement producer in India and 2nd largest in South India, with current cement capacity of ~19.5mtpa (clinker capacity ~10mtpa).
- TRCL would report robust volume growth on sustainable basis, driven by increasing exposure to newer markets (East) and core market share gains.
- We forecast volume/blended realisations/EBITDA/t CAGR of 7%/3%/14% respectively over FY20-FY23F. Initiate coverage with Add and Rs1,132 TP.

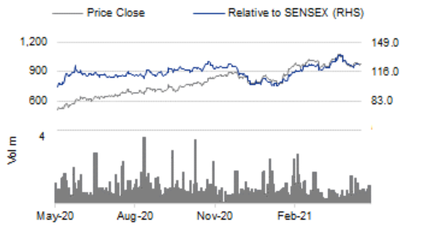
India

ADD *(Initiating coverage)*

Consensus ratings*: Buy 16 Hold 8 Sell 6

Current price:	Rs965
Target price:	Rs1,132
Previous target:	NA
Up/downside:	17.3%
InCred Research / Consensus:	11.6%
Reuters:	TRCE.BO
Bloomberg:	TRCL IN
Market cap:	US$3,117m
	Rs2,27,669m
Average daily turnover:	US$9.1m
	Rs662.0m
Current shares o/s:	235.6m
Free float:	37.5%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.7)	(0.3)	79.6
Relative (%)	(9.0)	1.1	8.1

Major shareholders	% held
Promoter & Promoter Group	42.5
Kotak Balanced Advantage	6.9
L&T Mutual Fund Trustee	4.0

Regional diversification & market share gain to aid volume growth

TRLC posted ~12% volume CAGR over FY16-FY20 led by growth from eastern markets, while the company performed relatively better vs. peers in the South though the region lagged the period's all-India average. With the ongoing expansion of cement (~1mtpa) and clinker (3.8mtpa) capacities (likely by FY22F), we believe TRLC will consolidate its position in South India as expansion projects are helping in diversification. TRLC's capacity mix in East would increase to 15% in FY22F from 5% earlier. East offers better demand prospects than South and, higher exposure to the East increases TRCL's volume growth visibility. We estimate a ~7% volume CAGR over FY20-FY23F.

Stable realisations and cost efficiency to support unitary EBIDTA

We believe pricing will be maintained in the southern markets and improve in eastern markets in the foreseeable future as the industry awaits clarity on full demand recovery post the recent disruption from the second wave of COVID-19. With incessant focus on premium products, sales should cushion the company's realisations which we expect to grow at ~3% CAGR over FY20-FY23F. Post commissioning of clinker capacity in the state of Andhra Pradesh, we expect savings in logistics costs (Rs50-55/t) and the commissioning of waste heat recovery system (WHRS)/captive power plant, and railway siding, wagon tippler capacities should help lower power and fuel (P&F) costs over the next two years. Thus, we expect EBITDA/t to grow at a ~14% CAGR over FY20-FY23F.

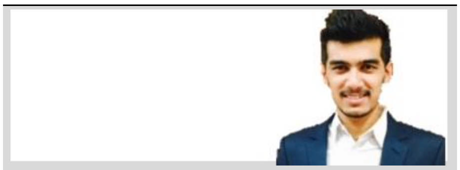
De-leveraging to kick in from FY22F

Due to ongoing capex, gross debt touched Rs31bn as at Dec 2020 (FY18: Rs11bn), raising net debt/EBITDA to ~2x in FY21F from 0.9x in FY18. We believe debt levels have peaked and the balance capex should be funded via internal accruals amid better cash flows from sweating of expanded capacity and cost rationalisation likely leading to debt reduction from FY22F. We expect net debt/EBITDA to improve to ~0.5x in FY23F from 2.6x in FY20.

Company deserves a premium valuation

Current valuations are broadly in line with its long-term average; however, we see some triggers for a sustained re-rating due to improved regional mix post recent expansion, cost leadership and deleveraging of balance sheet ahead. Initiate coverage with Add and TP of Rs1,132 set at 14x FY23F EV/EBITDA. Risks: Below-expected volume growth and rising input costs.

Analyst(s)



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Financial Summary	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue (Rsm)	51,564	53,684	52,667	63,147	73,164
Operating EBITDA (Rsm)	10,365	11,366	15,326	17,313	20,698
Net Profit (Rsm)	5,059	6,011	7,897	8,564	10,646
Core EPS (Rs)	21.5	25.5	33.5	36.4	45.2
Core EPS Growth	(8.5%)	18.8%	31.4%	8.4%	24.3%
FD Core P/E (x)	44.95	37.83	28.79	26.55	21.36
DPS (Rs)	3.0	2.4	3.0	3.6	4.5
Dividend Yield	0.31%	0.25%	0.31%	0.38%	0.47%
EV/EBITDA (x)	23.41	22.59	16.83	14.47	11.52
P/FCFE (x)	60.63	96.95	57.24	90.42	51.93
Net Gearing	34.2%	59.6%	54.3%	36.2%	15.1%
P/BV (x)	5.10	4.62	4.04	3.57	3.11
ROE	11.9%	12.8%	15.0%	14.3%	15.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			0.99	1.02	1.08

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 18 MAY 2021

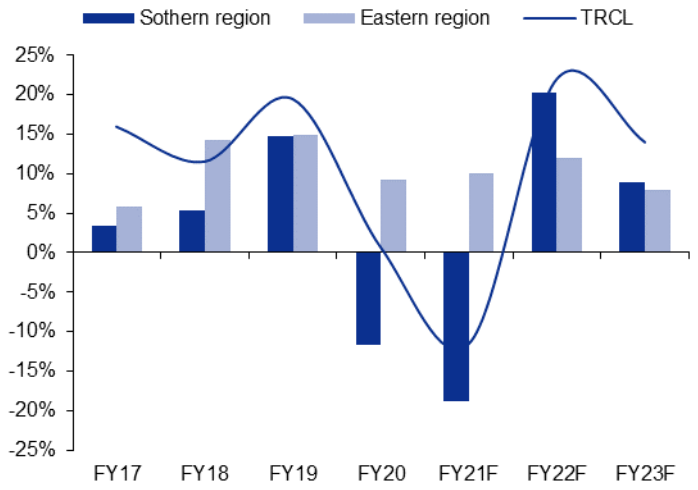
Deserves a premium valuation

Exposure to newer markets and continous outperformance to regional underperformance to drive strong volume growth

Gradual demand recovery to support medium-term volume growth

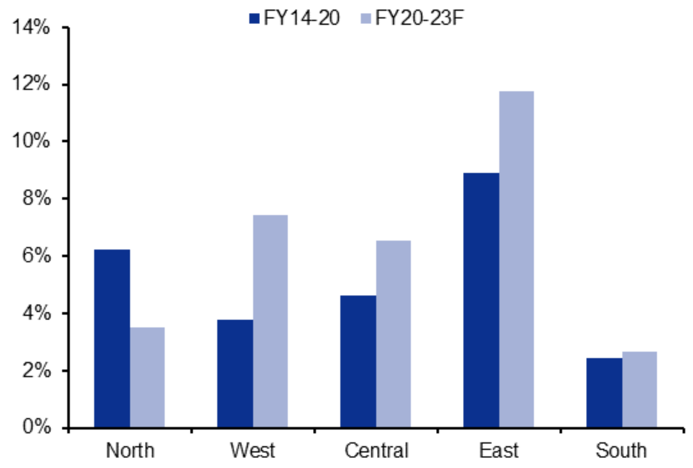
- TRCL reported ~12% volume CAGR over FY16-FY20, largely led by growth from other markets (apart from Tamil Nadu and Kerala) and market share gain. During the period, overall utilisation improved from 44% to 61% driven by increased sales in the East, where TRCL's exposure grew from ~19% in FY17 to ~25% in FY20. To address the growth headwinds from the South's dull market, TRCL made inroads into the East market from 2017 and is now working to build its presence there. The South has been an oversupplied region for a long time and the company has adapted itself well to low utilisation work amid a volatile pricing environment (currently pricing looks promising and at the better end in the South region).
- Despite FY20 being challenging for the South region, TRCL's cement volumes grew ~0.7% with 60% utilisation driven by market share gains. Realisations grew ~5% owing to better prices, sales-mix changes and an increasing share of premium products. However, volumes plunged ~24% yoy in 1HFY21 as the lockdown impacted cement offtake in the early part of the quarter. 2HFY21 witnessed a sharp recovery led by pent-up demand and strong rural and infrastructure spends along with demand opening up from a few large irrigation projects in southern India.

Figure 123: Robust outperformance to regional demand growth over the years; to continue led by market share gains in core market and increasing volumes in East India



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 124: Highest capacity addition in FY21-23F was in East India, where TRCL has been working to build its presence from 2017

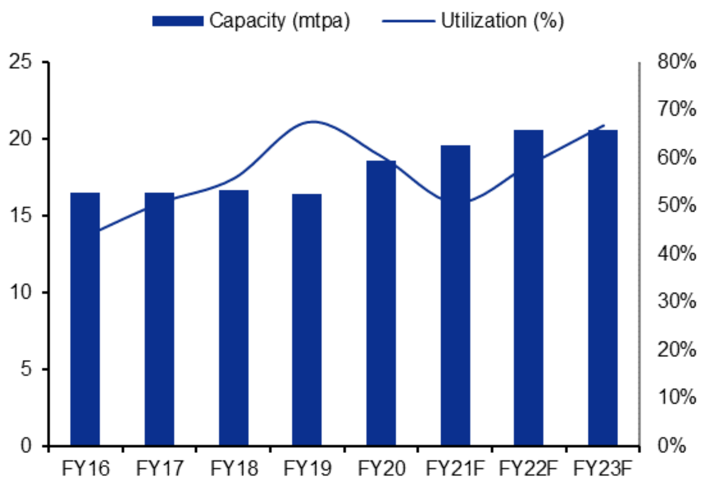


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

- During our recent interaction with some of South India's cement distributors regarding the impact of the second wave of COVID-19 on the cement industry, we found that South region demand was much better than in other Indian states. Though labour concerns are emerging slowly, it has not yet impacted demand in any material form. While the lockdowns in the South are slowly gaining momentum, it may have a near-term impact on demand. Overall, demand continues to remain positive (relative to other regions) and likewise underlying demand triggers. Going forward, we expect demand to start improving in TRCL's core markets led by (a) easing of mini-lockdown restrictions, (b) a pickup in construction activities across the country post monsoon, (c) increased spending by Central/State governments on affordable housing and infrastructure (irrigation and road) projects to boost the economy and (d) better monsoon leading to sustained spending from individual home builders (IHB) in rural and semi-urban areas.

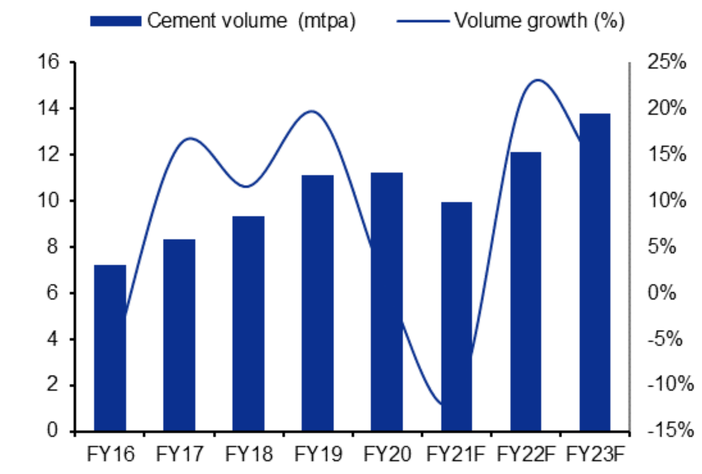
- TRCL's exposure to the East (to see better growth vs. other regions) and addition of new grinding units (GU) in the region should lead to gradual recovery in volumes over the next two years and improve utilisation levels post a drop in FY21F. Therefore, we build in ~7% volume CAGR over FY20-23F, primarily driven by demand recovery, ramp-up of new plants and market share gains from the expanded capacity.

Figure 125: TRCL's capacity grew by 4% CAGR from FY11-FY21; utilisation levels to increase gradually led by capacity ramp up



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 126: We build in 7% volume CAGR over FY20-23F, driven by increasing exposure to newer markets (East and parts of South India) and demand recovery



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Expanded capacity to help consolidate market share in South India, make further inroads into high-growth eastern region

- Southern and eastern regions are TRCL's main markets. In FY18, the company started expanding its grinding capacity by ~1.05mtpa in Kolaghat (West Bengal), ~1.05mtpa in Vizag (Andhra Pradesh) and ~1mtpa in Haridaspur (Odisha); it also set up a 1.5mtpa additional clinker line at Jayanthipuram (Andhra Pradesh) at a capex of ~Rs20.5bn. Thereafter, it announced a greenfield cement plant at Kurnool (Andhra Pradesh) with a 2.25mtpa clinker and 1mtpa grinding capacity at a project cost of Rs16bn. The total cost of this capacity expansion is Rs36.6bn of which ~Rs26bn was incurred as of Dec 2020 (Rs11.6bn during 9MFY21) and the balance will be spent in FY22.
- Post recent commissioning of projects, TRCL will now add the remaining 1mtpa of cement capacity and 3.8mtpa of clinker capacity by 1HFY22F and its total grinding capacity will reach +20.5mtpa (17.3mtpa in South, 3.2mtpa in the East). Currently, the company is shipping clinker from the Tamil Nadu plant to its grinding units in East India, West Bengal and Odisha. Post commissioning of the clinker expansion facilities in Andhra Pradesh, TRCL would use the surplus clinker to feed its East grinding units which should help streamline costs.

Figure 127: Glimpse of ongoing expansion project at TRCL

Location	Type	Clinker capacity (mt)	Cement (mt)	Project cost (Rs m)	Expected time of completion	Assets
Kolaghat (WB)	GU		1.05	3,860	Commissioned Sep 2019	Railway siding ongoing, expected to commission in 4QFY21F
Haridaspur (Orissa)	GU		0.95	7,170	Commissioned Sep 2020	Railway siding and wagon unloading, land area of 180 acres
Vizag (AP)	GU		1.05	2,150	Commissioned Mar 2020	None
Jayanthipuram (AP)	IU	1.5		7,400	1QFY22F	27MW WHRS (18MW commissioned) capex of Rs2,500m
Kurnool (AP)	IU	2.25		16,000	1HFY22F	With wagon unloading and railway siding and 500 acres of land
Kurnool (AP)	IU		1.0		1HFY22F	12MW WHRS and 18MW thermal power plant
Total		**3.8**	**4.1**	**36,580**		
Completed as of Dec 2020		**-**	**3.1**	**26,000**		
Capex in FY21-22F		**3.8**	**1.0**	**10,580**		

AP = ANDHRA PRADESH, IU = INTEGRATED UNIT
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 128: TRCL's total cement capacity and capacity addition delayed due to COVID-19 and currently in an advanced stage

Plant location	Type	Current capacity (mtpa)	Completed/expected by	Post expansions
RR Nagar, Virudhu Nagar (TN)	Integrated	2.0		2.0
Alathiyur, Ariyalur (TN)	Integrated	3.1		3.1
Ariyalur Govindpuram, Ariyalur (TN)	Integrated	3.5		3.5
Mathodu, Chitradurga (Karnataka)	Integrated	Closed		0.0
Jayanthipuram (AP)	Integrated	3.7		3.7
Chengalpet, Kanchipuram(TN)	Grinding	0.5		0.5
Valapady, Salem (TN)	Grinding	1.6		1.6
Kolaghat (WB)	Grinding	2.0	Sep 2019	2.0
Vizag (AP)	Grinding	2.0	Mar 2020	2.0
Haridaspur (Odisha) Greenfield	Grinding	0.95	Sep 2020	0.95
Kharagpur (WB)	Grinding	0.2		0.2
Kurnool (AP)	Integrated		1HFY22	1.0
Total		**19.5**		**20.5**

TN = TAMIL NADU, AP = ANDHRA PRADESH, WB = WEST BENGAL
SOURCES: INCRED RESEARCH, COMPANY REPORTS

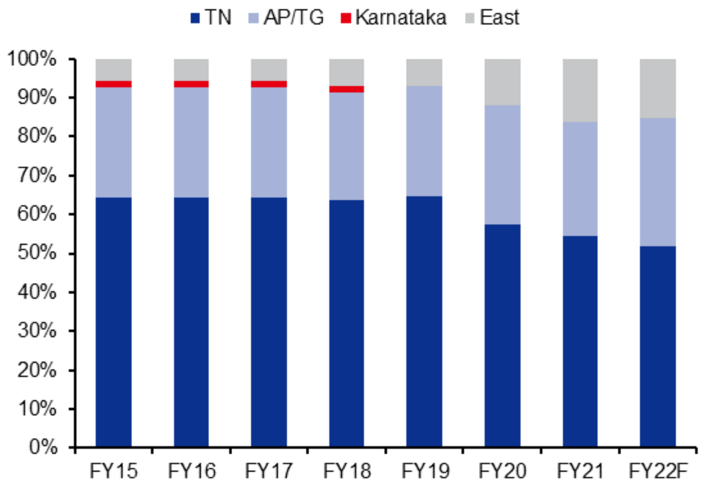
Figure 129: Plant-wise clinker capacity overview

Clinker capacity plant	Current capacity (mtpa)	Addition (mtpa)	Completed/expected by	Post expansions (mtpa)
RR Nagar, Virudhu Nagar (TN)	1.1			1.1
Alathiyur, Ariyalur (TN)	2.3			2.3
Ariyalur Govindpuram, Ariyalur (TN)	3.0			3.0
Jayanthipuram (AP)	3.3	1.50	1HFY22	4.8
Kurnool (AP)		2.3	1HFY22	2.3
Total	**9.7**	**3.8**		**13.5**

TN = TAMIL NADU. AP = ANDHRA PRADESH
SOURCES: INCRED RESEARCH, COMPANY REPORTS

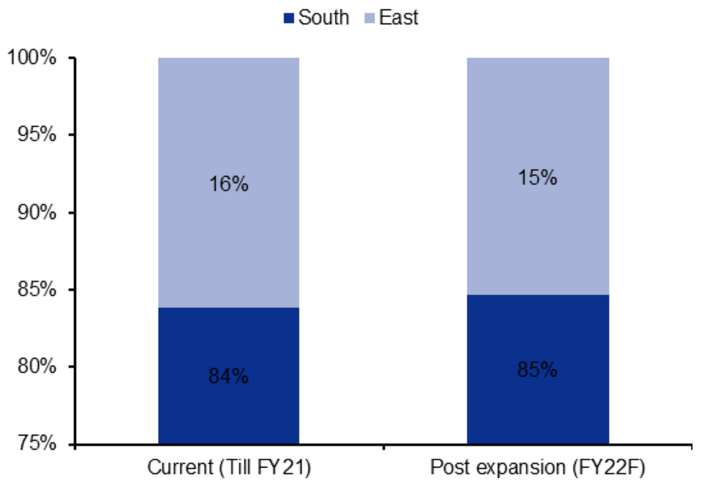
- TRCL has a strong foothold in South Indian state of Tamil Nadu and a decent presence in Kerala, Andhra Pradesh, Telangana, Karnataka, West Bengal, and Odisha. Currently, about 50% of sales volume is concentrated in two states – Tamil Nadu and Kerala. However, capacity constraints hampered its growth in India's eastern markets. With the recent commissioning of new grinding capacities in Kolaghat and Kharagpur (West Bengal) and Jajpur (Odisha), the company has made further inroads into the region. With expansion projects, its capacity mix in East India would increase to 15% in FY22F from 5% earlier. We believe the East offers better demand prospects than the South and, higher exposure in the East increases TRCL's volume growth visibility, in our view. Additionally, TRCL expects to commission a greenfield plant at Kurnool (1mtpa cement, 2.25mtpa clinker) and Jayanthipuram (1.5mtpa clinker) by 1HFY22. Post completion of ongoing expansion, the company will look to set up grinding units in Karnataka and Andhra Pradesh.
- For the eastern region, we expect ~35m-36mtpa of capacity addition over FY21-FY23F, which will be ~40% of the region's FY20-end capacity. Demand in Eastern India has grown strongly over the past four to five years and it remained relatively resilient in 9MFY21 vs. the rest of India. We expect ~13m-14mtpa of capacity addition over FY21-23F for South India, which will be 78% of the region's FY20-end capacity. The region continues to face supply-demand mismatches and, therefore, we believe capacity additions may remain limited in the foreseeable future. Demand recovery will be led by higher spending on road and irrigation projects by state governments and IHB demand.

Figure 130: Tamil Nadu to continue to account for half of TRLC's overall capacity share (TN and Kerala are TRCL's key markets)



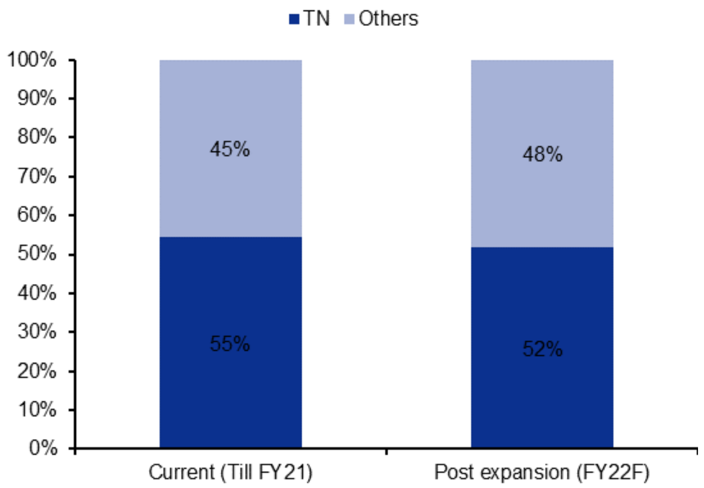
TG = TELENGANA
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 131: 85% of TRCL's cement grinding capacity is in South India



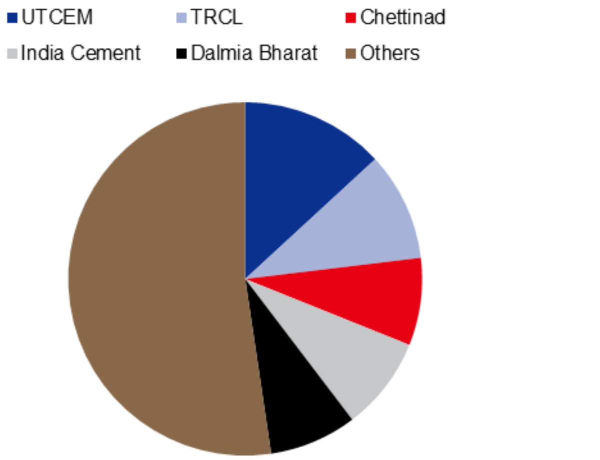
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 132: Capacity mix to skew towards high growth AP/ Telangana and eastern markets post expansion



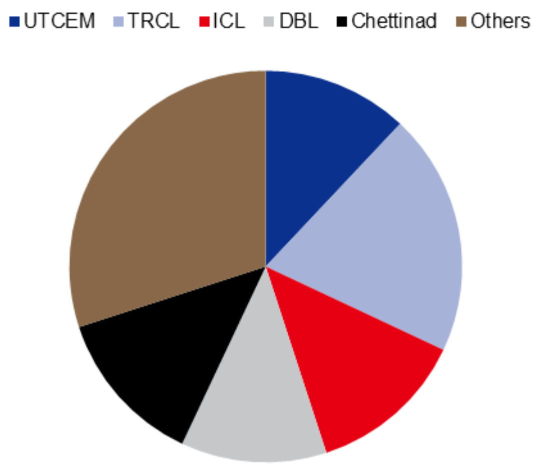
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 133: TRCL is the 2nd largest cement player in South India; top 5 players held >45% of region's total capacity as at Dec 2020



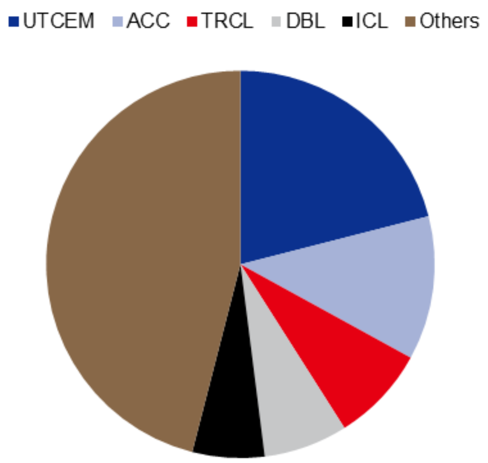
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 134: TRCL is the largest player in TN and Kerala (~50% of volumes sold in two states in FY20, in our view)



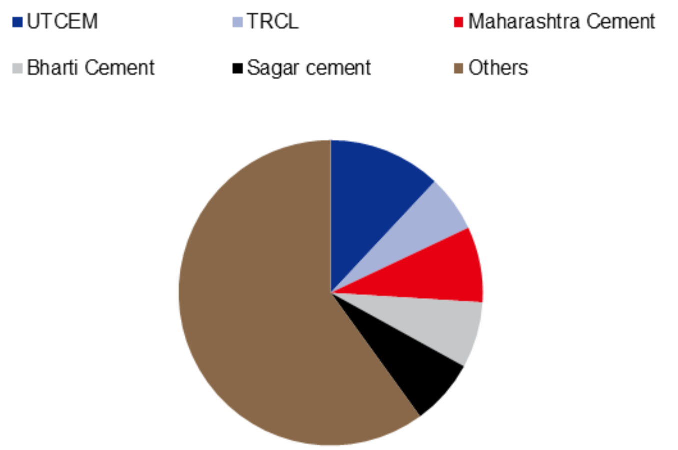
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 135: TRCL had the 3rd largest capacity share in Karnataka market in FY21



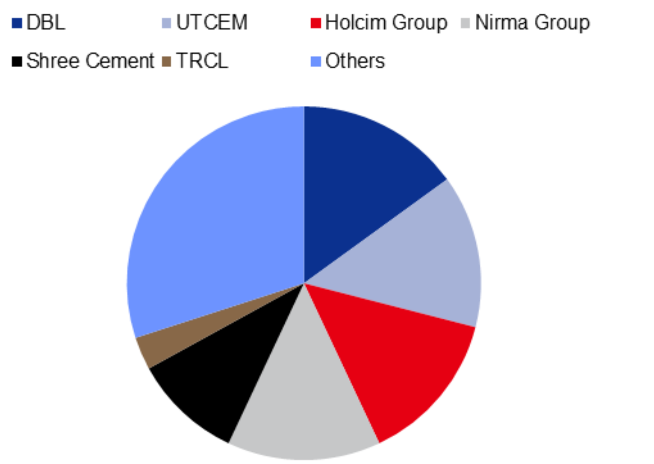
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 136: % of capacity in AP & Telangana market, where TRCL had a decent presence in FY21



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 137: TRCL's capacity in East India was very small in FY21



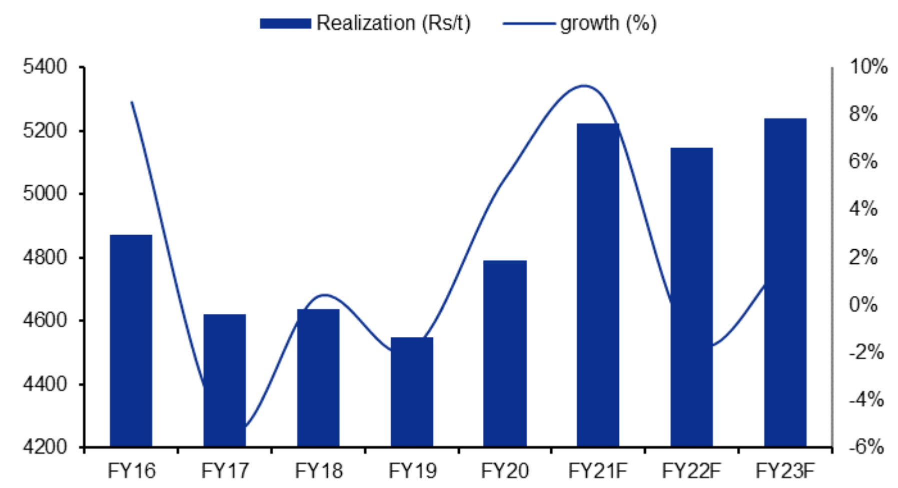
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Continuous focus on cost efficiency and stable realisations to buoy EBITDA/t

Focus on premium cement and healthy pricing in South to support realisations ➤

- TRCL's core market of South India has remained an oversupplied region from last many years, leading to price volatility, particularly in Andhra Pradesh. On the other hand, volume has not grown consistently owing to region-specific issues. Prices in the region recovered sharply in the last few quarters post touching historical lows in Nov-Dec 2019. We do not expect any major capacity addition in the South over the next two to three years which should provide price stability provided demand recovery kicked in from 2HFY21 and competitive pressures ease out.
- Eastern markets witnessed healthy demand in the last three to four years led by traction from IHB and some infra spending; this had led to historically lower price volatility vs. southern India. However, with East India set to witness highest capacity addition over the next three years, prices seem to be under pressure due to competitive intensity but recent hikes in Mar-Apr 2021 provided some hopes of pricing revival in the Eastern market.
- We expect TRCL to further improve its customer mix and focus on increasing Value-added product (VAP) contribution. Premium cement sales contributed ~35% of total sales in 3QFY21 (12-15% last year). TRCL aims to raise this to 40-45% (premium products fetch Rs25/bag more) in the near term. Therefore, we build in ~3% realisation/t CAGR over FY20-FY23F.

Figure 138: Realisations/t to improve gradually with increase in contribution from premium products



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

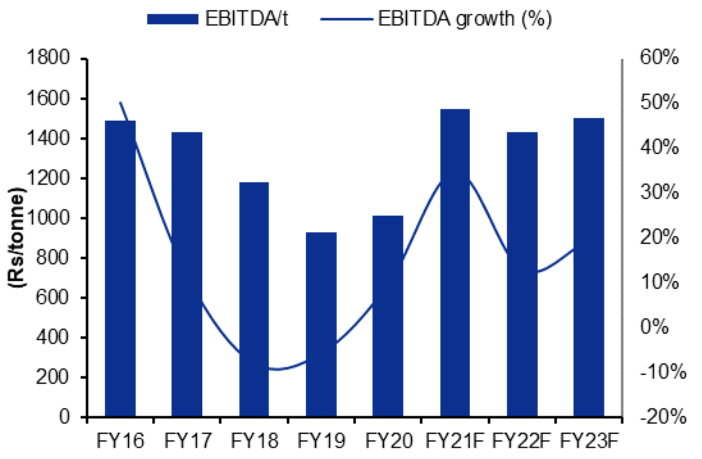
Rising input costs to hit unitary EBITDA in medium term ➤

- Over FY15-FY17, TRCL's EBITDA/t improved from Rs908/t to Rs1,431/t led by (a) reduction in raw material costs due to lower limestone costs, (b) better fuel optimisation with increase in pet coke usage and drop in pet coke prices (c) a favourable freight mix (higher usage of low-cost sea route for internal freight), and (d) minimal dependence on grid power led by commissioning of CPPs. However, over FY18-FY19, the company's EBITDA/t plunged to ~Rs932/t due to higher fuel costs and increase in freight and forwarding costs (amid increased servicing intensity in eastern markets).
- With a correction in pet coke, coal, and diesel prices in FY20, EBITDA/t recovered to Rs1,015/t (~Rs1,620 for 9MFY21). However, pet coke/international coal prices increased sharply in the last six months and with companies partly passing on rising input costs by way of price hikes, TRCL could see an impact on its per unit margins in FY22F.

TRCL is one of the most cost-efficient players in India's cement industry

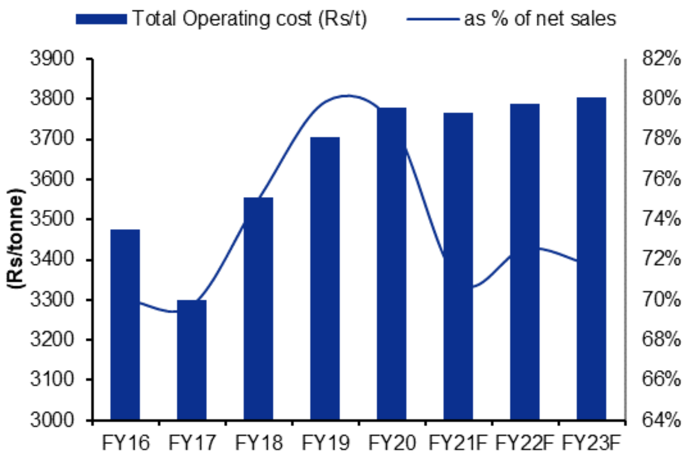
- TRCL is one of the most cost-efficient cement producers in the industry, despite its grinding units being located in the distant East. The cost efficiency is led by (a) proximity to coastal belts in South and East allowing sea transportation of clinker, (b) lower handling costs, led by investments in logistics infrastructure – railway sidings, loading plants, etc. (c) high captive power capacity including wind farms and, thus, negligible dependence on grid power.
- Post recent commissioning of new capacities, we expect realisations and cost efficiencies for the East market to improve materially led by (a) a wider reach to better-priced retail markets leading to a reduction in discounts and a drop in non-trade sales, and (b) operational efficiencies kicking in due to lower inter-unit clinker movement costs (reduced clinker movement from AP to East which would lead to savings of Rs50-55/t at the company level).
- Overall, we believe cost reduction will come in over the next two years because of (a) a planned 27MW (18MW already commissioned) WHRS capacity addition at Jayanthipuram and ~12MW WHRS and 18MW thermal power plant at Kurnool leading to savings in P&F costs; (b) investments in railway siding, along with high-end automation equipment like wagon tippler, multiple silos for storage, etc, that enable the company to maintain high levels of productivity with minimum handling costs which will help streamline logistics costs. Therefore, we build in ~14% CAGR in EBITDA/t over FY20-23F.

Figure 139: Healthy realisations, cost streamlining to drive unitary EBITDA in FY23F



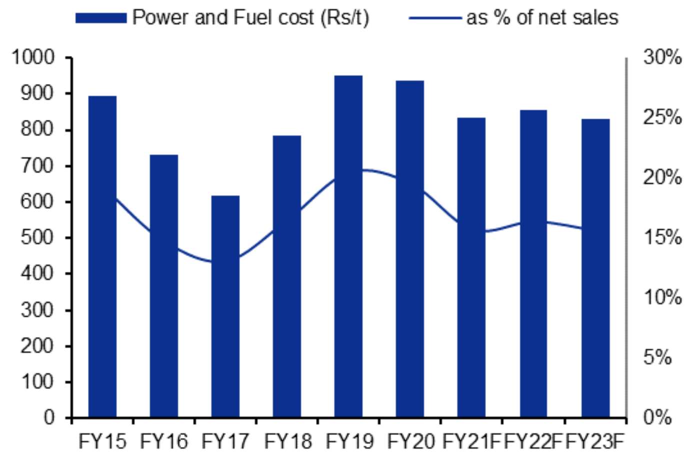
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 140: Total operating costs to increase in FY22F due to higher input costs and acceleration in volumes



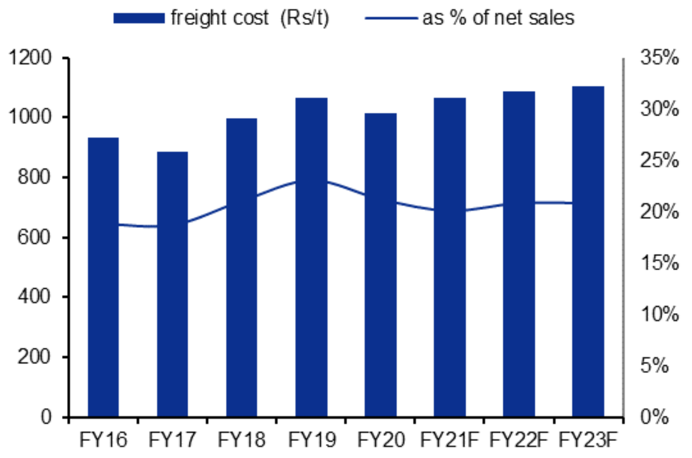
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 141: Cost-saving initiatives to offset higher pet coke/coal prices



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 142: Higher diesel prices, inward logistics expenses to push up logistics costs in near term

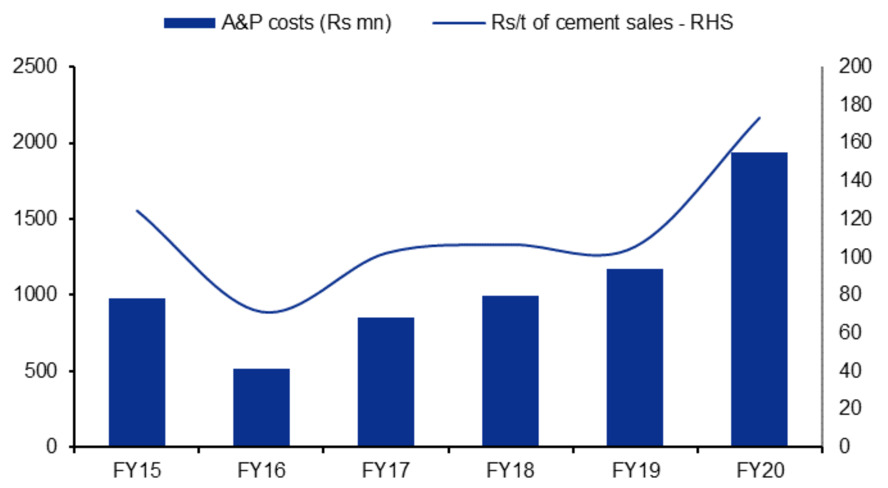


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Sharp jump in A&P expenses to support branding

- A&P expenses increased to Rs1.7bn in FY20 vs. Rs1bn in FY19 as TRCL continued to focus on increasing dealer and customer engagements to promote its new brand launches (Supercrete).
- Advertising and promotion (A&P) spends are likely to remain high in FY21 as the company is aiming to grow Supercrete's contribution from 5% of trade volumes currently to ~20% over the next three years.

Figure 143: A&P to remain high to support branding



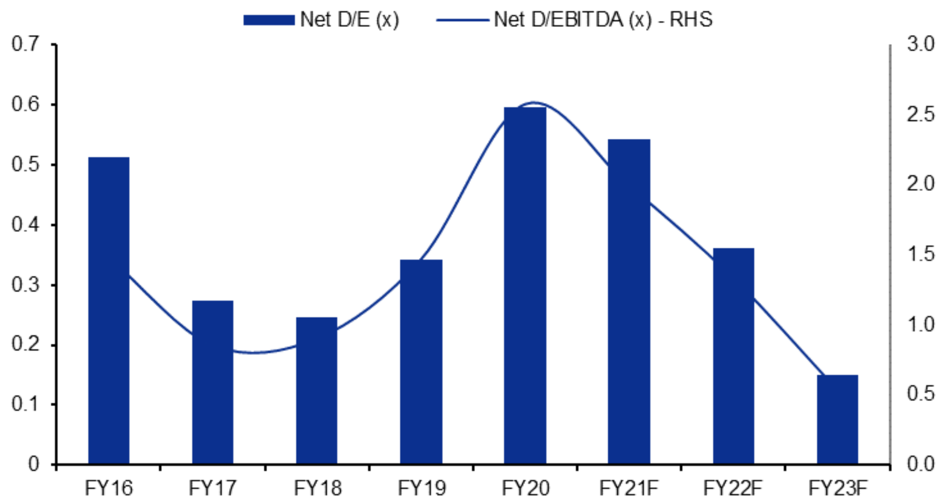
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Leverage peaks; deleveraging to kick in from FY22F

Robust cash flow generation and improved return ratios to help TRCL become debt free by FY24F

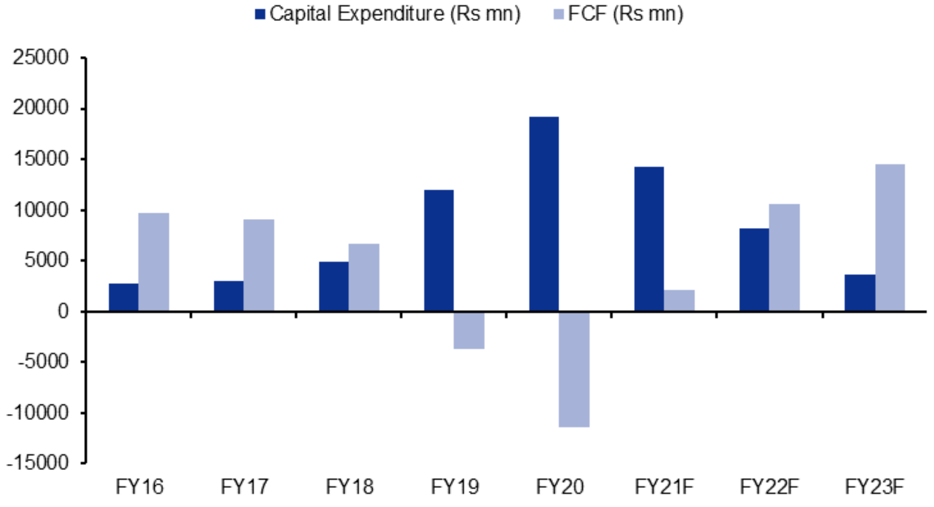
- Over FY14-18, TRCL significantly deleveraged its balance sheet, with net debt/EBITDA down from 4x to 1x by FY18. However, since FY19, the company has invested Rs36.6bn to expand its grinding/clinker capacity by 4mtpa/3.8mtpa. As at Dec 2020, TRLC had already incurred Rs26bn, while the balance capex is likely to be incurred by FY22F, in our view.
- Consequently, gross debt doubled to Rs31bn as of Dec 2020 (FY18: ~Rs11bn), while net debt was Rs30bn as on Dec 2020 and net debt/EBITDA (D/E) jumped to 2.6x in FY20 (0.9x in FY18). The company incurred Rs11.66bn in 9MFY21 towards the above-mentioned ongoing capacity expansion programme. The balance capex to be incurred is Rs5.37bn for its ongoing expansion (funded via internal accruals amid better cash flows). We expect balance sheet deleveraging to begin from 2HFY22F.
- We expect net D/E to improve from 0.6x in FY20 to 0.2x by FY23F and net debt/EBITDA from 2.6x to 0.5x. Capacity ramp-ups beyond FY21 will buoy return ratios and we expect deleveraging to kick in much faster given strong free cash flow generation in the coming years and believe the company would become debt free by FY24F.

Figure 144: Leverage seems to have peaked; deleveraging to kick in from FY22F



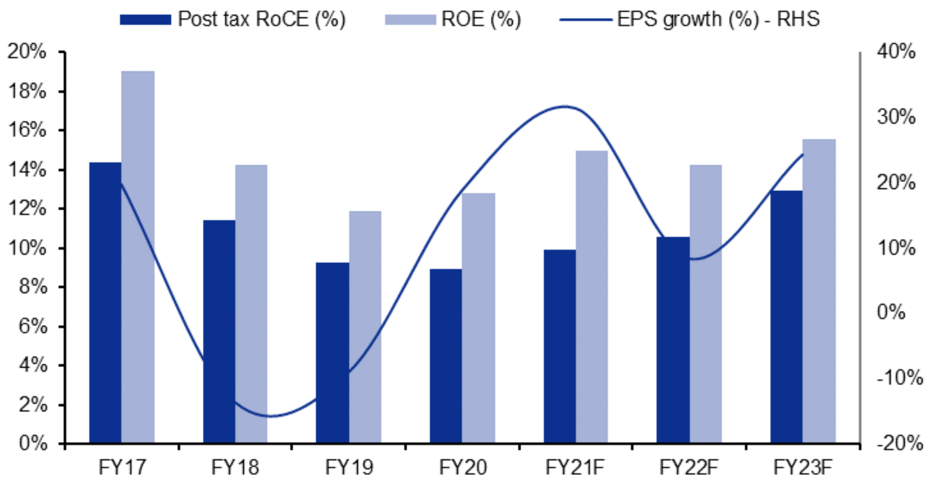
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 145: Deleveraging to occur faster given limited capex and strong free cash flow generation in the coming years



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 146: We expect return ratios to improve in the coming years



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Initiate with Add rating, FY23F TP of Rs1,132

Valuation

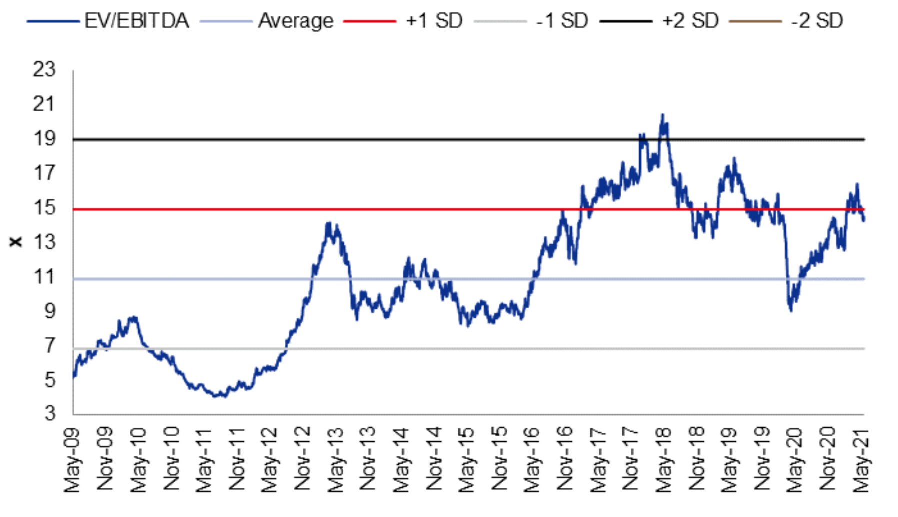
- TRCL sells ~75% of its volumes in southern India during FY20, where demand declined in FY20 and FY21. However, the company has been gaining market share in the region driven by its aggressive marketing and new product launches in niche segments. It is expanding its clinker capacity by ~39% by 1HFY22F; this will also serve grinding units (existing and new) in the eastern market and should lead to market share gains in the region.
- Stable pricing and focus on cost efficiencies should help keep EBITDA/t stable over FY20-FY23F though operating profitability might remain impacted due to pandemic-led disruption and higher cost inflation. We build in volume/EBITDA per tonne CAGR of ~7%/14% over FY20-FY23F.
- Despite profitability being affected by COVID-19 in FY21, we expect a rebound over the next two years once the situation normalises. With the majority of capex done, net debt peaked in FY20, and we expect deleveraging to kick in faster given strong free cash flow generation in the coming years. We believe the company would become debt free by FY24F.
- AT CMP of Rs965, TRLC is trading at an EV/EBITDA of 14.6x/11.7x for FY22F/FY23F, vs. its 10-year average of 12.8x and five-year average of 15.5x. TRCL's execution capability is reflected in its cost leadership and deserves a premium valuation to its similar-sized peers. TRCL's cost leadership, brand equity, upcoming expansion and cost-saving projects gives strong growth visibility and, hence, deserves a similar valuation to larger pan-India players, in our view. We initiate coverage with an Add rating and a TP of Rs1,132 at 14x at FY23F EV/EBITDA – in line with its six-year average.

Figure 147: Our Target price of Rs1,132 is based on 14x FY23F EV/EBITDA

Valuation	**TP**
Target EV/EBITDA (x)	14.0
Target EV (Rs m)	2,89,760
Net debt (Rs m)	23,078
No. of shares (m)	236
Fair value per share (Rs)	**1,132**

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 148: We value the stock at 14x FY23F EV/EBITDA to arrive at Rs1,132 TP



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 149: TRCL trading at P/BV at c.3.2x for FY23F

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Risks

Downside risks ➤

- A further slowdown in cement demand. Cement demand growth was badly impacted in early CY20 due to the COVID-19 pandemic. Any prolonged slowdown in general construction activities across the country might impact TRCL's volume growth.
- Any major roll back in cement prices in Southern and Eastern India/ further rise in input costs over the medium term to dent realisations and EBITDA/t.
- Delay in commissioning ongoing capacity expansion at Jayanthipuram and Kurnool, Andhra Pradesh.
- Labour migration issues, issues with logistics (non-availability of truck drivers / loading, un-loading labour, etc), increased and a more intense spread of COVID-19 in rural areas are few of the key risks that can impact demand.

Company brief and management profile

Company background

- The Ramco Cements Limited (TRCL), earlier Madras Cement, is the flagship company of the South India-based Ramco Group, headquartered in Chennai. TRCL manufactures cement, ready-mixed concrete, and dry-mix products. The company exports cement and owns and operates a private sector wind-mill power generating farm. The wind farm's installed capacity is 166MW.
- TRCL had a grinding capacity of ~20.5mtpa and clinker capacity of 10mtpa as at Dec 2020. From selling more than 90% of its volumes in the southern region in FY10, the company has increased its focus on the eastern region. In FY20, TRCL sold ~75% of its volumes in the southern region and ~25% in the eastern region.
- The company sells its cement products in Tamil Nadu, Kerala, Andhra Pradesh, Karnataka, Odisha and West Bengal. Although TN and Kerala account for most of its sales, TRCL is keen to establish itself in India's eastern states of Odisha and West Bengal as well. All plants are fully equipped with multiple silos for storage, railway siding, stand-by power back-up facility, and waste heat recovery system for power generation, and are supported with grinding units at strategic locations.
- In FY18, TRCL initiated the increase of its grinding capacity by ~1mtpa in Kolaghat (West Bengal), ~1mtpa in Vizag (Andhra Pradesh) and ~0.9mtpa in Haridaspur (Odisha) along with 1.5mtpa of additional clinker line at Jayanthipuram (Andhra Pradesh) with an overall capex of Rs20bn. Thereafter, the company announced a greenfield cement plant in Kurnool (AP) with 2.3mtpa clinker and 1mtpa grinding capacity at a project cost of Rs16bn.
- In Mar 2020, TRCL completed the expansion of the grinding unit in Vizag, Andhra Pradesh, from 0.95mtpa to 2mtpa. A new grinding unit in Haridaspur, Odisha, with a capacity of 1mtpa was also commissioned in Sep 2020. Management plans to expand clinkering capacity at Jayanthipuram, Andhra Pradesh, from 3mtpa to 4.5mtpa along with a WHRS capacity of 27MW (18MW commissioned recently) by 1HFY22. It expects to commission a new integrated cement plant in Kurnool, Andhra Pradesh, with a clinker and cement capacity of 2.25mtpa and 1mtpa, respectively, by 1HFY22. The plant will have railway siding, thermal power plant of 18MW and WHRS of 12.15MW. According to management, the total cost of this capacity expansion is Rs34bn, of which ~Rs26bn was spent as on Dec 2020 and the balance will be spent in FY22.
- TRCL has captive thermal power capacity of 175MW and windmill capacity of 166MW. Ramco Windfarms Ltd is a 71.5% stake subsidiary with capacity of 39.8MW.

TRCL's milestones

Figure 150: TRCL's journey

1962	**Commissioned its first cement plant at R.R. Nagar in Tamil Nadu with a capacity of 2,000 tonnes**
1987	Set up Jayanthipuram plant near Vijayawada in Andhra Pradesh
1992-96	Installed wind generators with a capacity of 33MW
1994	Expanded cement capacity at Jayanthipuram to 1.1mtpa and RR Nagar to 0.75mtpa
1997	Set up the 0.9mtpa cement capacity at Alathiyur, Tamil Nadu
1998-	Set up two ready-mix concrete plants in Tamil Nadu
2000	Commissioned 0.5mtpa slag GU at Jayanthipuram
1999	Commissioned 1.5mtpa Line 2 at Alathiyur and acquired mini cement plant
2001	In Karnataka for its limestone reserves
2005-09	Set up ~100MW of wind power, brownfield expansion at Jayanthipuram
2010	R.R. Nagar and Line 1 of the Ariyalur (2mtpa) plant
2013	Set up 2 grinding units in Tamil Nadu and 1 in West Bengal
2015	1.5mtpa line 2 at Ariyalur
2015	0.95mtpa grinding unit at Vizag
2020	Commissioned additional 1 mtpa at Kolaghat, West Bengal Commissioned additional 1 mtpa at Vizag, Andhra Pradesh
2021	Commissioned 1 mtpa GU at Chandikhol, Jajpur, Orissa
	Commissioned 18MW of 27MW WHRS at Jayanthipuram, Andhra Pradesh

SOURCES: INCRED RESEARCH, COMPANY REPORTS

TRCL's product portfolio

Figure 151: Cement product portfolio, including premium product Supercrete

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 152: Cement product portfolio – Supergrade, Infra and Super Steel

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key management profile

Mr. P. R. Venketrama Raja, Chairman & MD

Mr. Venketrama Raja, aged 60, has a degree in Chemical Engineering from the University of Madras and an MBA from the University of Michigan, USA. He has been on the board since 1985. He has more than 30 years of industrial experience with specific knowledge in the textiles, cement, and information technology sectors. He is also on the boards of Ramco Industries Limited, Ramco Systems Limited, Rajapalayam Mills Limited and The Ramaraju Surgical Cotton Mills Limited.

Mr. A. V. Dharmakrishnan, CEO

Mr. Dharmakrishnan joined the company when it had a single manufacturing unit and grew with the organisation to become the CEO and is now heading and steering the company in all spheres of its operations. Mr Dharmakrishnan is responsible for introducing data-driven decision making and management control systems across all layers of the organisation.

Mr. Balaji K. Moorthy, Executive President, Marketing

Mr. Moorthy heads the company's Marketing Division. With the rapid expansion in the company's manufacturing capacity, he is responsible for creating various new markets in the states of Karnataka, Odisha, West Bengal, etc. Mr Moorthy is credited with popularising the various brands of the company, which are very vital for the progress of the organisation.

Mr. M. Srinivasan, President, Manufacturing

Mr. Srinivasan is responsible for Production, Quality Control and Research & Development activities. His knowledge of the chemistry of cement helped the organisation develop various types of cement for specialised applications. He also heads the project team, executing the capacity augmentation projects.

Mr. S Vaithiyanathan, CFO

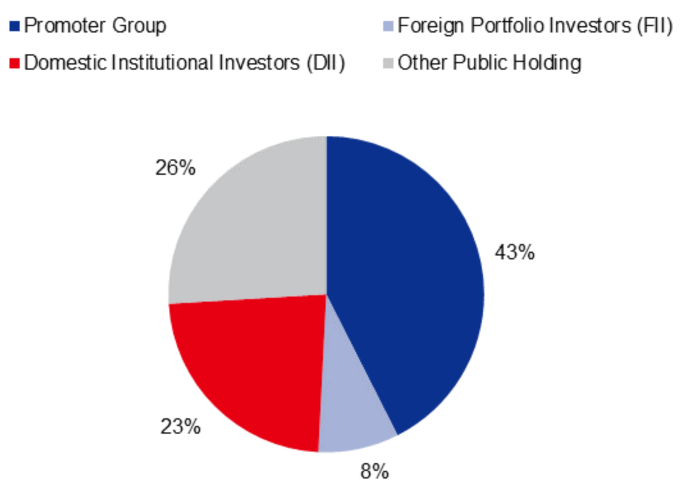
Mr. Vaithiyanathan heads the Finance and Accounts teams and is responsible for financial planning for all the company's projects, tax planning, internal controls, commercial and logistics operations.

Figure 153: TRCL's board members

Name	Designation
Mr. P.R. Venketrama Raja	Chairman and MD
Mr. R.S. Agarwal	Promoter and Non-Executive Director
Mr. M.M. Venkatachalam	Non-Executive Independent Director
Smt. Chitra Venkataraman	Non-Executive Independent Director
Mr. M.F. Farooqui	Non-Executive Independent Director
Mr. M.B.N. Rao	Non-Executive Independent Director
Mr. A.V. Dharmakrishnan	CEO
Mr. S. Vaithiyanathan	CFO

SOURCES: INCRED RESEARCH, COMPANY REPORTS

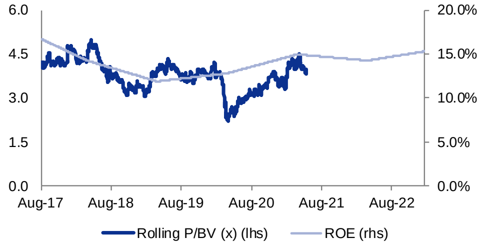
Figure 154: Shareholding pattern (Mar 2021)



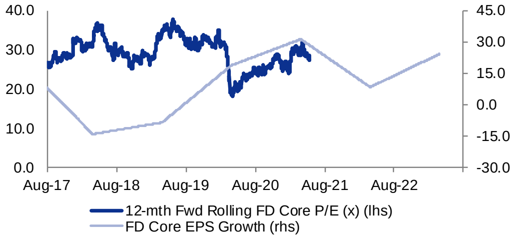
SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Net Revenues	**51,564**	**53,684**	**52,667**	**63,147**	**73,164**
Gross Profit	**51,564**	**53,684**	**52,667**	**63,147**	**73,164**
Operating EBITDA	**10,365**	**11,366**	**15,326**	**17,313**	**20,698**
Depreciation And Amortisation	(2,985)	(3,153)	(3,531)	(3,990)	(4,389)
Operating EBIT	**7,380**	**8,214**	**11,795**	**13,323**	**16,309**
Financial Income/(Expense)	(509)	(714)	(999)	(1,598)	(1,662)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	284	372	327	337	347
Profit Before Tax (pre-EI)	**7,155**	**7,872**	**11,123**	**12,062**	**14,994**
Exceptional Items					
Pre-tax Profit	**7,155**	**7,872**	**11,123**	**12,062**	**14,994**
Taxation	(2,097)	(1,861)	(3,226)	(3,498)	(4,348)
Exceptional Income - post-tax					
Profit After Tax	**5,059**	**6,011**	**7,897**	**8,564**	**10,646**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**5,059**	**6,011**	**7,897**	**8,564**	**10,646**
Recurring Net Profit	5,059	6,011	7,897	8,564	10,646
Fully Diluted Recurring Net Profit	**5,059**	**6,011**	**7,897**	**8,564**	**10,646**

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
EBITDA	10,365	11,366	15,326	17,313	20,698
Cash Flow from Invt. & Assoc.					
Change In Working Capital	926	1,815	(881)	(1,060)	(1,678)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	284	372	327	337	347
Other Operating Cashflow	(1,065)	(3,579)	921	421	(579)
Net Interest (Paid)/Received	(509)	(714)	(999)	(1,598)	(1,662)
Tax Paid	(2,097)	(1,861)	(3,226)	(3,498)	(4,348)
Cashflow From Operations	**7,904**	**7,400**	**11,469**	**11,915**	**12,778**
Capex	(12,018)	(19,193)	(14,200)	(8,200)	(3,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	109	(132)	4,204	5,800	4,300
Cash Flow From Investing	**(11,909)**	**(19,325)**	**(9,996)**	**(2,400)**	**600**
Debt Raised/(repaid)	7,755	14,271	2,500	(7,000)	(9,000)
Proceeds From Issue Of Shares			(860)	(1,036)	(1,288)
Shares Repurchased					
Dividends Paid	(853)	(1,564)	(860)	(1,036)	(1,288)
Preferred Dividends					
Other Financing Cashflow	(476)	(580)	(961)	15	1,267
Cash Flow From Financing	**6,426**	**12,127**	**(181)**	**(9,057)**	**(10,309)**
Total Cash Generated	2,422	202	1,291	458	3,069
Free Cashflow To Equity	**3,751**	**2,346**	**3,973**	**2,515**	**4,378**
Free Cashflow To Firm	**(3,496)**	**(11,212)**	**2,472**	**11,113**	**15,041**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Cash And Equivalents	928	914	2,206	2,663	5,731
Total Debtors	4,900	5,269	5,050	6,055	7,216
Inventories	5,597	6,453	6,205	7,439	8,619
Total Other Current Assets	2,334	3,044	3,160	3,789	4,683
Total Current Assets	**13,758**	**15,680**	**16,621**	**19,946**	**26,249**
Fixed Assets	51,212	57,883	68,352	72,362	71,473
Total Investments	4,295	4,275	4,475	4,675	4,875
Intangible Assets	8,526	18,404	14,000	8,000	3,500
Total Other Non-Current Assets	3,291	4,229	4,429	4,629	4,829
Total Non-current Assets	**67,324**	**84,790**	**91,256**	**89,666**	**84,677**
Short-term Debt	9,175	11,918	11,918	11,418	10,918
Current Portion of Long-Term Debt					
Total Creditors	2,572	3,414	2,027	2,527	2,582
Other Current Liabilities	8,730	8,008	8,163	9,472	10,975
Total Current Liabilities	**20,477**	**23,340**	**22,108**	**23,416**	**24,474**
Total Long-term Debt	7,012	18,323	20,823	14,323	5,823
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	8,992	9,622	8,722	8,122	7,522
Total Non-current Liabilities	**16,004**	**27,945**	**29,545**	**22,445**	**13,345**
Total Provisions					
Total Liabilities	**36,481**	**51,284**	**51,653**	**45,861**	**37,819**
Shareholders Equity	44,601	49,186	56,223	63,750	73,108
Minority Interests					
Total Equity	**44,601**	**49,186**	**56,223**	**63,750**	**73,108**

Key Ratios

	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue Growth	16.9%	4.1%	(1.9%)	19.9%	15.9%
Operating EBITDA Growth	(5.7%)	9.7%	34.8%	13.0%	19.6%
Operating EBITDA Margin	20.1%	21.2%	29.1%	27.4%	28.3%
Net Cash Per Share (Rs)	(64.77)	(124.48)	(129.61)	(97.96)	(46.73)
BVPS (Rs)	189.31	208.77	238.64	270.59	310.30
Gross Interest Cover	14.51	11.51	11.81	8.34	9.81
Effective Tax Rate	29.3%	23.6%	29.0%	29.0%	29.0%
Net Dividend Payout Ratio	14.0%	9.3%	9.0%	10.0%	10.0%
Accounts Receivables Days	33.00	34.57	35.76	32.10	33.10
Inventory Days	39.63	40.96	43.86	39.43	40.06
Accounts Payables Days	23.23	25.82	26.60	18.13	17.77
ROIC (%)	11.4%	9.8%	13.0%	14.8%	18.8%
ROCE (%)	13.1%	11.7%	14.0%	14.9%	18.2%
Return On Average Assets	7.3%	7.4%	8.5%	9.3%	11.2%

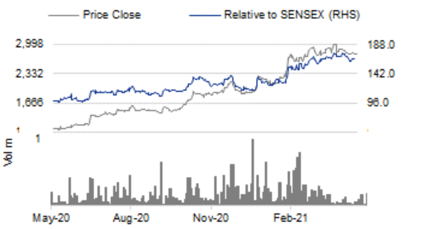
SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

HOLD *(Initiating coverage)*

Consensus ratings*:	Buy 22 Hold 3 Sell 1
Current price:	Rs2,808
Target price:	Rs2,918
Previous target:	NA
Up/downside:	3.9%
InCred Research / Consensus:	3.1%
Reuters:	JKCE.BO
Bloomberg:	JKCE IN
Market cap:	US$2,970m
	Rs2,16,910m
Average daily turnover:	US$4.2m
	Rs307.3m
Current shares o/s:	77.3m
Free float:	37.5%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.5)	4.5	157.4
Relative (%)	(6.9)	5.9	54.9

Major shareholders	% held
Promoter & Promoter Group	52.6
Fidelity Investment Trust Fidelity	5.8
SBI Small Cap Fund	1.8

J K Cement Ltd

High-quality business but at rich valuation

- JKCE is present in the grey (capacity: 14.7mtpa) cement, and white cement (0.6mtpa) and wall putty (1.2mtpa) segments.
- The company's regional mix has improved as it made inroads into new Central and Western India markets. It is eyeing Central India to expand further.
- We forecast volume/blended realisations/EBITDA/t CAGR of 15%/1%/5%, respectively over FY20-FY23F. Initiate coverage with Hold and Rs2,918 TP.

Well-timed capacity addition; eying Central region

JKCE's grey cement volumes grew by ~6% CAGR over FY16-FY20, while segment utilisation was ~72% in FY20 (FY19: ~80%). Factoring in COVID-19-led demand disruption, we expect ~15% CAGR in grey cement volumes over FY20-FY23F on the back of ~40% increase in grey cement capacity with favourable exposure to newer regions of Central/Western India. JKCE approved the setting up of an integrated ~4mtpa grey cement capacity in Panna, Madhya Pradesh, by 1HFY24F. White/wall putty contributed 32-33% to revenue and ~45%+ to EBITDA in the last five years and should continue to generate stable margins of 27-28%. JKCE added a 0.3mtpa putty line at Katni in Oct 2020. We build in ~9% CAGR in white cement/wall putty sales over FY20-FY23F.

Stable pricing, cost saving initiatives to contain cost escalation

Post recent expansion, JKCE has a 75% exposure to North and Central India, where pricing stability should endure given favourable demand supply dynamics. JKCE is upgrading its Line 3 at Nimbahera plant (to be commissioned by 2QFY22F), likely leading to savings of Rs100/t. The company is taking initiatives to reduce freight costs by optimising lead distance (expect Rs40-50/t savings) and some savings from expanded waste heat recovery system (WHRS) capacity at Mangrol. There may be a hit on margins in the medium term due to input cost rising trend. We build in ~5% blended EBITDA/t CAGR over FY20-FY23F post factoring in 1% blended realisation CAGR.

Leverage to peak out in FY23F; gradual deleveraging possible

Demand recovery over the next two years, higher utilisation of expanded capacity and improved EBITDA/t should lead to strong cash flows, lower net D/E from ~0.7x in FY21F to ~0.5x by FY23F and net debt/EBITDA from ~1.6x in FY21F to 1.4x by FY23F, in our view. We expect JKCE's debt to peak out in FY23F, post the current capex's completion.

Stock looks fairly valued

Current valuations are broadly in line with their long-term average; however, the stock recently re-rated on improved regional mix post its expansion, sustainable cost structure and improved profitability. We see limited triggers for a sustained re-rating. We initiate coverage with a Hold rating and TP of Rs2,918 set at 12x FY23F EV/EBITDA. Risks: Below expected volume growth, and increased competitive intensity leading to pricing pressure. Upside risks: better-than-expected demand recovery and pricing, announcement of capex.

Financial Summary	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue (Rsm)	52,587	58,016	67,030	79,595	89,351
Operating EBITDA (Rsm)	8,345	12,134	16,022	18,481	21,135
Net Profit (Rsm)	2,703	4,964	8,121	9,570	11,434
Core EPS (Rs)	36.7	64.2	105.1	123.9	148.0
Core EPS Growth	(10.1%)	74.9%	63.6%	17.8%	19.5%
FD Core P/E (x)	76.44	43.70	26.72	22.67	18.98
DPS (Rs)	10.0	17.5	18.9	18.6	20.0
Dividend Yield	0.39%	0.75%	0.82%	0.80%	0.86%
EV/EBITDA (x)	28.54	20.05	15.14	13.28	11.67
P/FCFE (x)	(126.90)	83.92	95.12	88.10	69.94
Net Gearing	78.8%	88.1%	71.1%	64.6%	55.3%
P/BV (x)	8.03	7.17	5.92	4.88	4.02
ROE	11.6%	17.3%	24.3%	23.6%	23.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.17	1.11	1.15

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 18 MAY 2021

Analyst(s)

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High-quality business but at rich valuation

Capacity addition and favourable regional mix to drive volume growth

Grey cement business to outperform industry in FY20-23F; inroads into newer market of Central India

- JKCE completed its last grey cement expansion in FY15 (capacity expanded from 7.5mtpa to 10.5mtpa with ~71% of the capacity in Northern India and the rest in South India). The company also increased its putty capacity from 0.7mtpa to ~0.9mtpa over FY18-20. In FY18, JKCE started enhancing its total grey cement capacity to ~18mtpa in two phases. JKCE has historically remained very disciplined in completing its capex well within/on time even if the external environment has been challenging (ex. South India expansion in FY09, Mangrol and UAE expansions in FY14).
- Over FY15-20, JKCE's grey cement volume grew by ~6% CAGR – lower than most peers but slightly ahead of the industry average of ~5% CAGR. In line with average utilisation in North India, JKCE's grey cement utilisation stood at ~73% in FY20 vs 82% in FY19 (with new capacity added in Feb 2020, we have considered expanded capacity [3.5mtpa] from FY21).

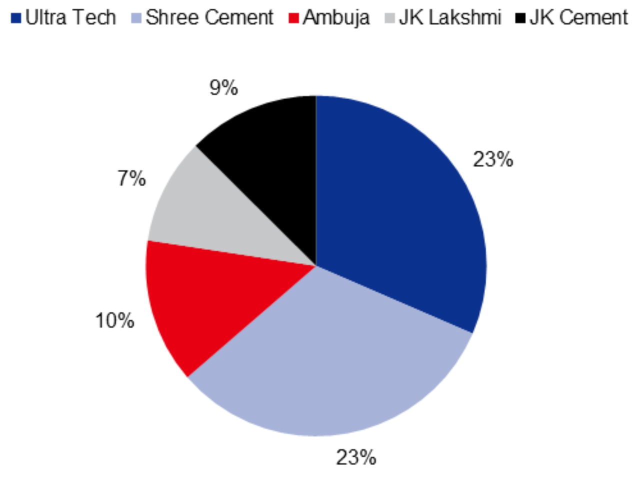
Figure 155: Timed addition of grey cement capacity will help the company outperform the industry

Capacity (mtpa)	Year of commissioning	State	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F
Integrated units									
Nimbahera	2004	Rajasthan	3.3	3.3	3.3	4.25	4.25	4.25	4.25
Mangrol	2004	Rajasthan	2.3	2.3	2.3	3.25	3.25	3.25	3.25
Gotan	2007	Rajasthan	0.47	0.47	0.47	0.47	0.47	0.47	0.47
Mudhol, Muddapur	2009	Karnataka	3	3	3	3	3	3	3
Jhajjar	2014	Haryana	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Aligarh	2020F	Uttar Pradesh	-	-	-	1.5	1.5	1.5	1.5
Balasinor	2020F	Gujarat	-	-	-	-	0.7	0.7	0.7
Total			**10.5**	**10.5**	**10.5**	**14.0**	**14.7**	**14.7**	**14.7**

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

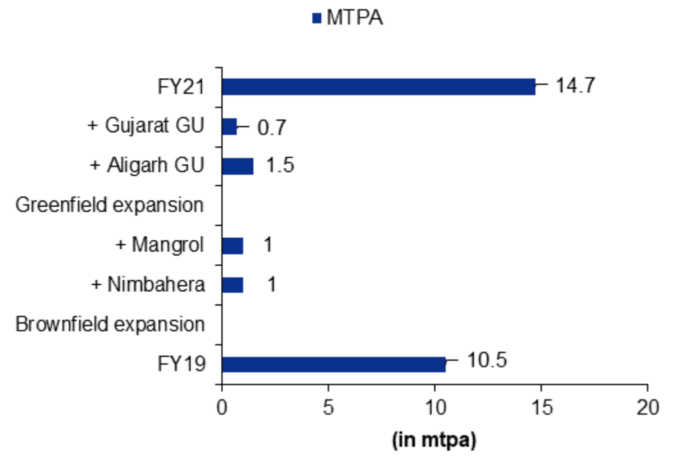
- **Recent expansion:** For phase-I (already commissioned), JKCE was on track to increase its grey cement GU capacity by ~40%, with a planned expansion of 4.2mtpa by FY20-end (taking the total capacity to 14.7mtpa), along with clinker addition of ~2.6mtpa at Mangrol. However, due to the COVID-19 disruption and labour shortage, the company was able to commission 3.5mtpa by FY20-end (Nimbahera, Rajasthan - 1mtpa, Mangrol, Rajasthan - 1mtpa, Aligarh GU, Uttar Pradesh - 1.5mtpa). The Oct 2020-commissioned 0.7mtpa Balasinor GU was hit by a labour shortage. The brownfield-greenfield expansion has a total outlay (phase-I) of Rs20bn (Rs16.48bn spent till Dec 2020). JKCE will likely complete the expansion at a lower cost of Rs18bn-18.5bn (vs its estimate of Rs20bn earlier), implying ~US$70/t for the production capacity.
- We believe the timing and location of this expansion will play out in the company's favour as post the expansion, in 9MFY21, JKCE's grey operations benefitted from close to normal demand in the northern and central markets and market share gains from its additional capacity. Post expansion, JKCE has a presence in central and western India (new GUs are in western Uttar Pradesh and Gujarat markets), while the company will gradually consolidate its position in northern India. The central and northern regions will continue to have a favourable demand-supply scenario (government-related projects, especially demand from the infrastructure segment is likely to remain strong over the next few years) and we expect both regions to see robust demand over the next couple of years. Western India should start seeing meaningful recovery, post a steep drop in demand due to the impact of the pandemic, in our view.

Figure 156: JKCE was one of the top-5 players in terms of capacity share in North India (FY21)



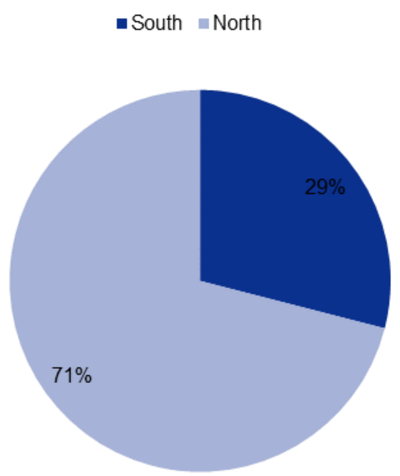
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 157: Phase-1 expansion has been commissioned and JKCE has entered new markets in Central and West India



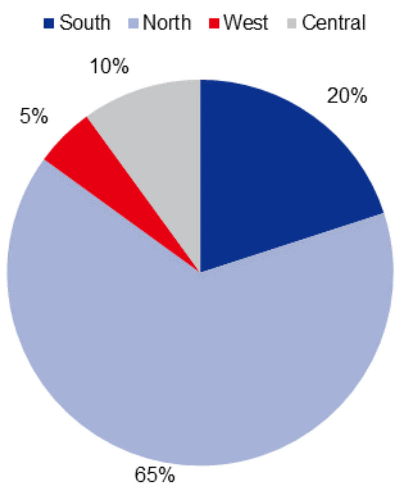
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 158: JKCE's pre-expansion (1HFY20) regional capacity share



SOURCES: INCRED RESEARCH, COMPANY REPORTS

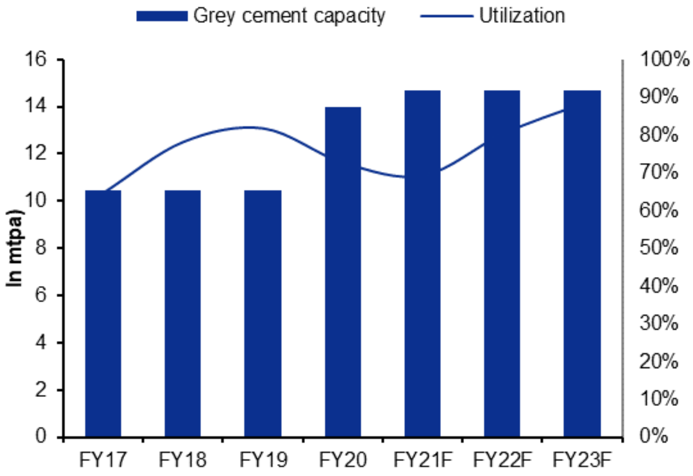
Figure 159: JKCE's post-expansion (current) regional capacity share



SOURCES: INCRED RESEARCH, COMPANY REPORTS

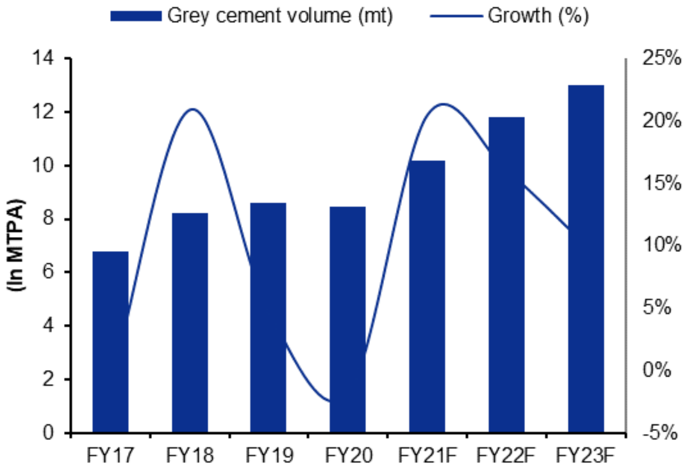
- **Debottlenecking:** JKCE has started debottlenecking kiln no.3 at Nimbahera, Rajasthan, by replacing the pre-heater, raw mill, and coal mill; the debottlenecking process is likely to be completed by 2QFY22F. This would increase the clinker output from 5,000 to 6,000 tonnes per day, reduce power consumption by ~12 units and consume 40-50 kcal/kg lower fuel. The planned capex will be Rs3.5bn (Rs2.98bn spent till Dec 2020). The expected savings on volumes from this plant are estimated to be about Rs40-50/t. The company will also be eligible for tax benefits under the State Goods & Services Tax (SGST) scheme in Rajasthan. Kiln no. 3 will be shut for 45-60 days during the upgradation process.
- On the back of ~40% increase in grey cement capacity over FY20-FY21, we expect grey cement volumes to grow at ~15% CAGR over FY20-FY23F.

Figure 160: Utilisation level to accelerate in FY22F and FY23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 161: Grey cement volumes to be robust, led by expanded capacities and robust demand

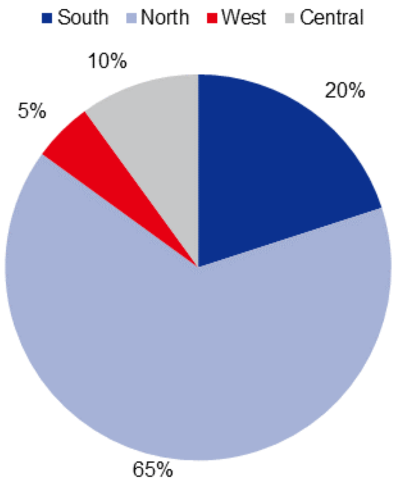


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Eyeing central India to gain market share; Panna expansion will help gain market share in Central India by FY24F

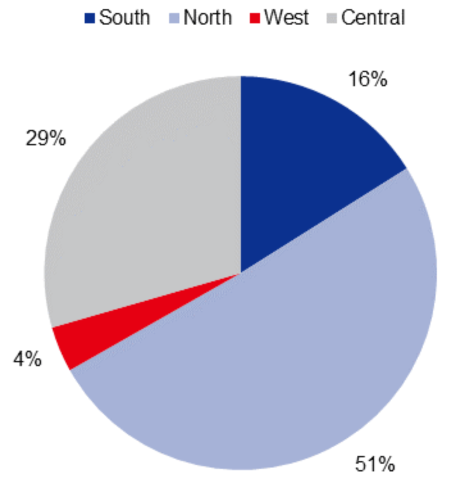
- Second phase of expansion in Panna, Madhya Pradesh, is unlikely to be commissioned before 1HFY24 as it is a greenfield project and may take at least three years post board approvals. In 3QFY21, JKCE's board approved the setting up of an integrated ~4mtpa grey cement capacity in Panna, MP, through its subsidiary Jaykaycem (Central), with split grinding unit in Uttar Pradesh at a capex of Rs30bn (US$100/t), which includes ~ Rs3bn-5bn for land acquisitions (capex projected at Rs8bn/13bn/6bn for FY2021F/ 22F/23F respectively). The capex will be funded through equity by JK Cement (~Rs13bn) and the rest by debt at the subsidiary level. The company expects the Panna expansion to be complete by 1HFY24.
- The expansion includes 8,000tpd clinker capacity, 2mtpa GU and 22MW WHRS at integrated site and 2mtpa satellite GU in Hammirpur, Uttar Pradesh.
- JKCE has two limestone mines in the central region with limestone reserves of 400m tonnes. Environmental clearances for mines at Panna (current expansion to be in Kakra mine) and major mining leases have been obtained, while the second mining lease will be operated after two years. The company acquired 600 acres of mining land and will further acquire 300-400 acres of land until the plant is completed, as per management during its quarterly conference call.
- The project would be entitled to various state government incentives including capital subsidy in Madhya Pradesh and GST benefits in Uttar Pradesh.
- Panna also has scope for an additional 4-6mtpa brownfield expansion in future. With the commissioning of the Panna capacity, JKCE will be able to cover the entire Madhya Pradesh and Uttar Pradesh markets, which will help the company to deliver volume growth post FY24F.

Figure 162: JKCE's current regional capacity share



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 163: Post Panna expansion in FY24F – central region share will increase substantially

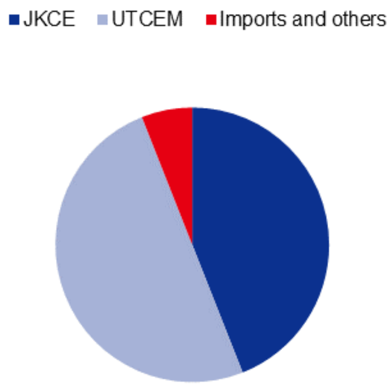


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Strong market positioning in stable white/putty segment – a key differentiator for JKCE

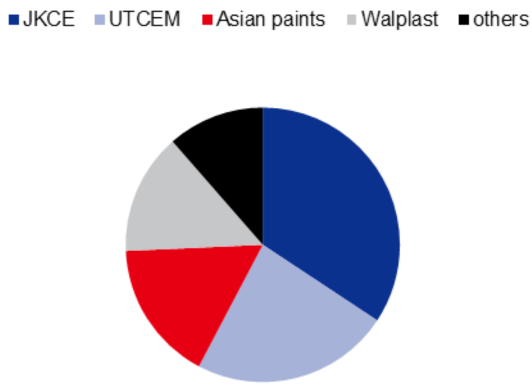
- The current market size of white cement/wall putty in India is ~1.3m/~3.5mtpa as per our analysis and JKCE enjoys ~27-28% market share in these segments, in our view. White cement is a duopoly business in India with JKCE and UTCEM being the only players (both have >90% market share) due to low availability of relevant limestone reserves (higher carbonate and low iron properties) in India.
- In the wall putty business, JKCE and UTCEM together control +55% of the domestic market. A key input for wall putty manufacturing is white cement and as a result, both JKCE and UTCEM enjoy a sharp competitive edge over other wall putty manufacturers.
- At present, white cement imports in India are 0.17m-0.18mtpa, of which RAK imports ~0.1mtpa and JKCE ~50,000t from Iran and other countries. In the past year, white cement imports to India almost doubled. At present, the import duty on white cement is ~10%, while ocean freight from the Middle East to India are at US$15-20/t.

Figure 164: JKCE and UTCEM currently have more than ~90% of India's white cement capacity share



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 165: JKCE currently has the highest capacity share in wall putty in India



SOURCES: INCRED RESEARCH, COMPANY REPORTS

- White cement and putty segment contributed 32-34%/>45% to JKCE's revenues/EBITDA over the last five years with steady margins of 26-29% despite increased competition from paint manufacturers and rising imports.

Total volume/EBITDA for this segment grew at 8%/7% CAGR over FY16-FY20.

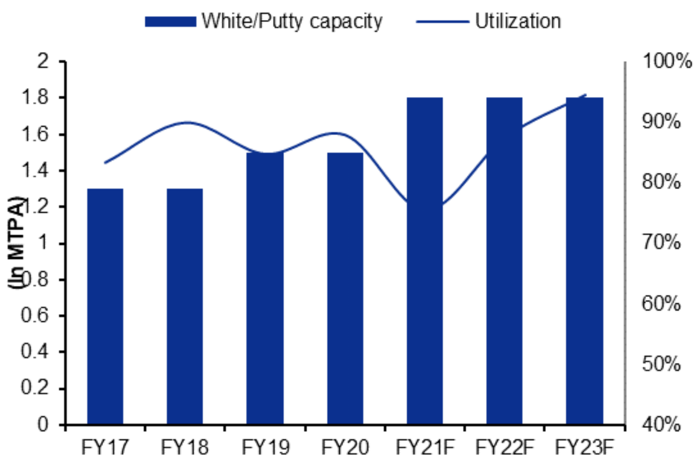
- Grey cement saw tough times in FY14-FY17, but strong operational performance and cash flow generation from the white cement and putty business enabled the company to service debt and interest expenses while providing capital for expansion.
- Segment utilisation level reached 88% in FY20, averaging over 80% in the last five to six years. In FY20, white/putty cement volumes grew by only ~4% yoy (had it not been for lost sales in Mar 2020 due to the lockdown, volumes would have grown by ~9% for FY20, in our view). In Oct 2020, the company successfully implemented additional capacity of 0.3mtpa of white cement-based wall putty at Katni at a planned capex of Rs0.25bn.
- JKCE markets its white cement under JK White Cement and UTCEM under Birla White brand. The average retail price of white cement is Rs900-1,000/50kg bag, 3x more than that of grey cement price per bag. Paint companies are eyeing this business with renewed focus though they depend on the outsourcing of white cement. We expect a stable pricing scenario for this segment as market leaders will try to protect their existing margins.
- We are factoring in 9% volume CAGR in white and value-added product (VAP) segment over FY20-FY23F and believe JKCE's primary strategy will be to protect the segment's current margin trajectory (27-28% EBITDA margin). We view this segment as a steady cash generator for the company.

Figure 166: White cement and wall putty capacity addition over the years

Capacity (mtpa)	Year of commissioning	State	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F
White Cement									
Gotan, Nagpur	2004	Rajasthan	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Fujairah	2014	UAE	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total			**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**
Wall putty									
Gotan, Nagpur	2007	Rajasthan	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Katni	2016/2020	Madhya Pradesh	0.2	0.2	0.4	0.4	0.7	0.7	0.7
Total			**0.7**	**0.7**	**0.9**	**0.9**	**1.2**	**1.2**	**1.2**

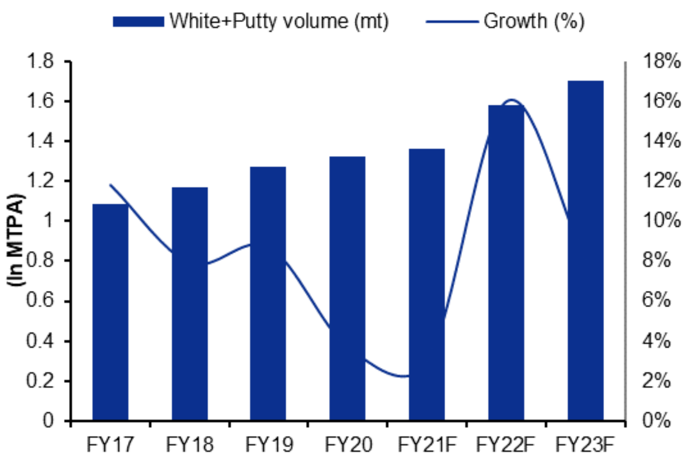
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 167: White/putty capacity utilisation to inch up in FY22F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 168: We forecast double-digit volume growth in white/putty segment for JKCE



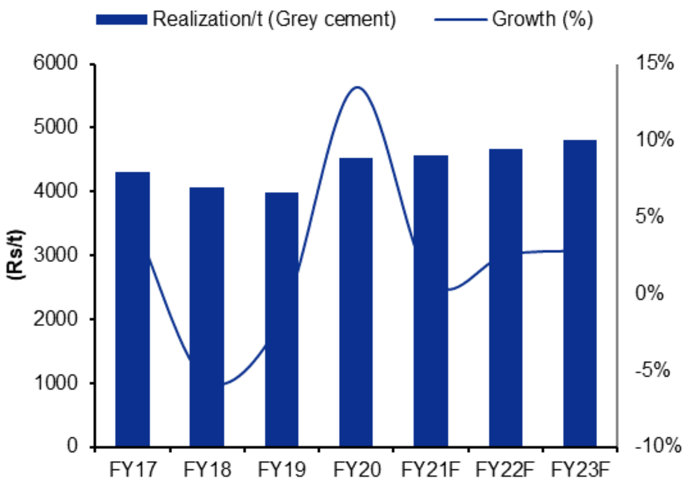
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Cost efficiencies to mitigate cost escalations

Plant modernisation & focus on cost efficiencies to buoy grey cement EBITDA/t

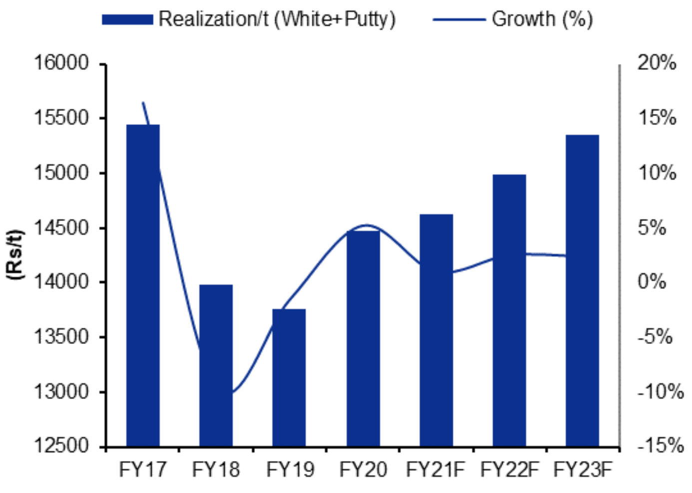
- In FY15, JKCE completed its business restructuring by appointing separate heads for the grey and white cement businesses and revamped the teams for both divisions. Mr. Rajnish Kapur, ex-MD of Holcim Bangladesh, was appointed the head of the grey cement business and Mr. V.K. Arora the head of the white cement business. Due to this refocussed strategy, JKCE's operating metrics improved remarkably in FY15-20, with volume/blended realisations/EBITDA/t growing at 6%/ 5%/15%, respectively.
- Post the recent expansion, JKCE currently is present in all the regions (barring East India), with North and Central India forming ~75% of its installed capacity. Both markets will continue to see a favourable demand-supply scenario, leading to pricing stability in these regions. Prices in South India (post sharp surge in cement prices) might remain slightly more volatile (vs. North and Central) due to unfavourable demand-supply dynamics.
- JKCE sells grey cement (Ordinary Portland Cement [OPC] and Portland Pozzolana Cement [PPC]/ Portland Slag Cement [PSC]) under the JK Super brand and launched JK Weather Shield in FY20. In FY19, it launched premium cement under the JK Super Strong brand. The company's grey cement realisations have slightly lagged peers due to higher share of OPC cement (~40% of product mix), while the company could still improve realisations considering its high OPC share (3QFY21 PPC-OPC mix stood at 62:38). JKCE increased its trade share mix from 50% in FY16 to 75% in FY20 (~66% in 3QFY21).
- We model ~1% realisation CAGR over FY20-FY23F post factoring in stable pricing in core markets, better realisations due to rising contribution from the trade mix and streamlining branding and distribution strategies.

Figure 169: Favourable exposure to improve grey cement realisations over next 2 years



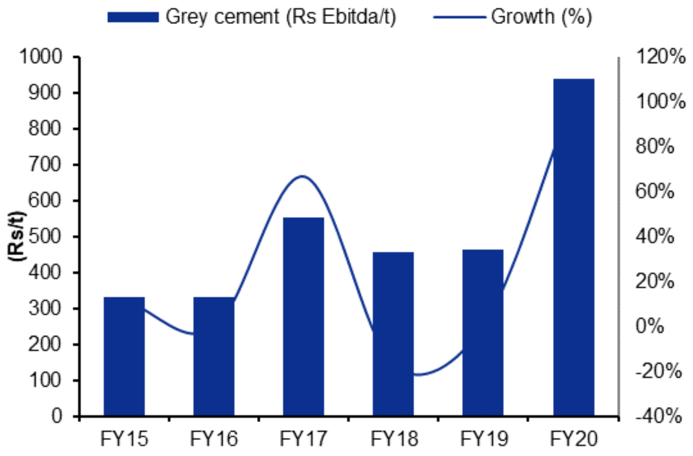
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 170: White + putty realisations/t to follow earlier trends



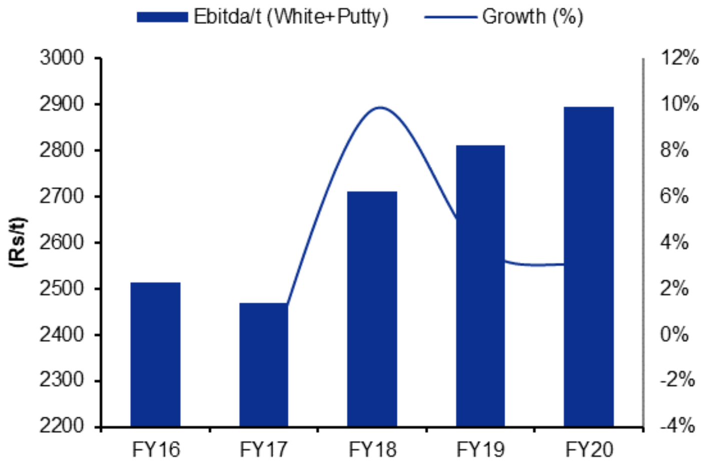
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 171: Grey cement EBITDA/t trend over FY15-FY20



SOURCES: INCRED RESEARCH, COMPANY REPORTS

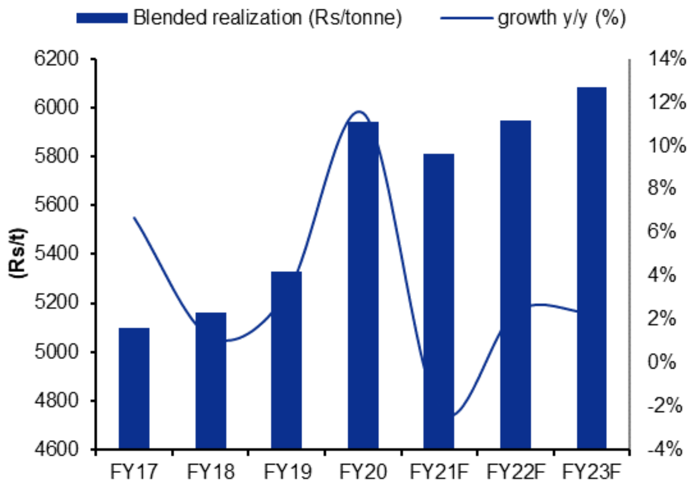
Figure 172: White/putty EBITDA/t trend over FY15-FY20



SOURCES: INCRED RESEARCH, COMPANY REPORTS

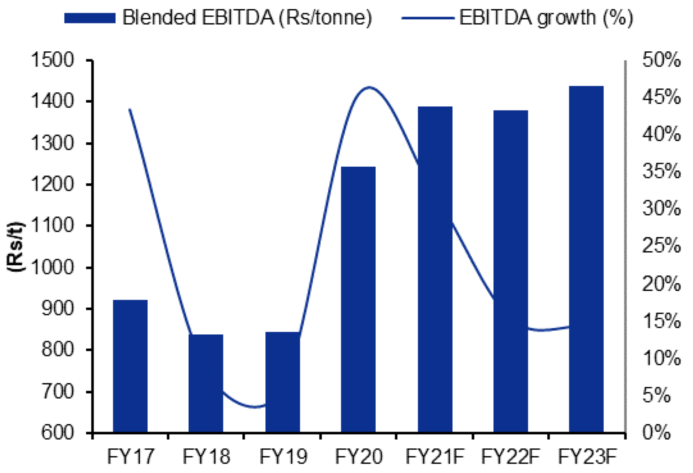
- We believe the company's production cost base would be slightly larger than its peers due to its vintage North India plants. However, JKCE is now modernising its North India plant and upgrading Line No 3 (expected to be complete by 2QFY22, in our view); post this upgrade, the older Lines 1 and 2 would be shut. With this exercise, the company aims to generate annual savings of Rs100/t (half of it already realised and the remaining to be reflected in 2HFY22).
- For the last two years JKCE has been working with the Boston Consulting Group (BCG) to streamline its marketing strategies in the grey cement and white cement/putty divisions. The company's grey cement realisations improved in the last two years, while white/putty sales grew despite increased competition. JKCE incurred Rs780m towards professional charges to various consultants in FY20. JKCE's current average lead distance is ~472km vs 450 in FY20. JKCE believes its association with BCG and its initiative to streamline lead distances will help lower freight costs by Rs40-45/t.
- The recently commissioned WHRS plant at Mangrol has increased WHRS's capacity at site from 10MW to 25MW, raising JKCE's total captive power capacity to 140MW (captive power plant 103MW, WHRS 37MW). We believe this should further help the company slightly improve its power and fuel costs ahead. There was ~20% shift from pet-coke usage to imported coal in 3QFY21 and the share of imported coal is likely to increase further. We believe there might be some hit on margins in the medium term due to a rising input cost trend. We believe various input cost escalations are likely be passed on and the current EBITDA margin is likely to be sustained/ improved over the next few years. We build in ~5% blended EBITDA/t CAGR over FY20-FY23F post factoring in 1% blended realisation CAGR and cost-saving initiatives.

Figure 173: Blended realisations to improve gradually led by healthy pricing of white and putty



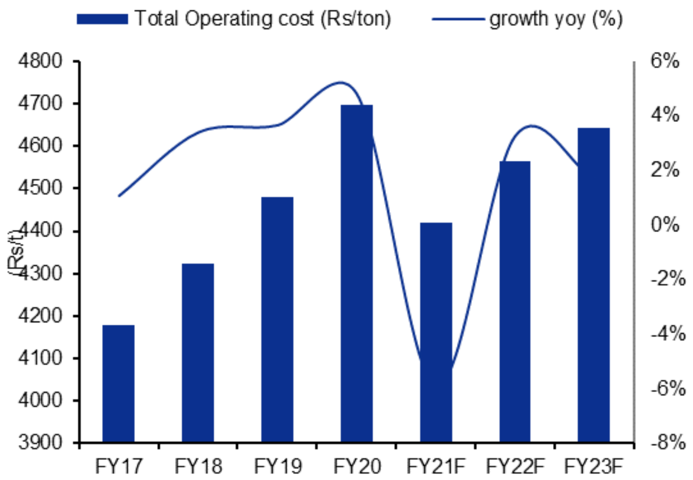
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 174: Blended EBITDA/t to improve post FY22F



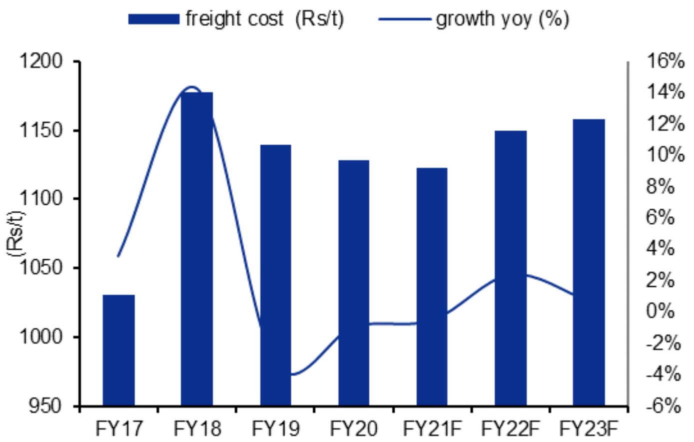
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 175: Blended operating costs/t to rise significantly during FY22F due to input cost escalations



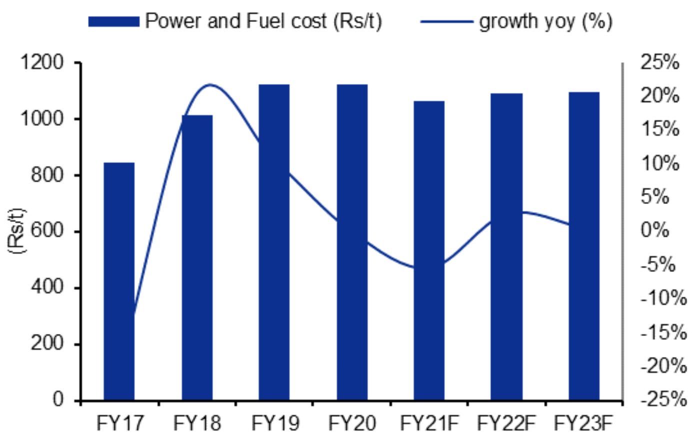
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 176: Blended logistics costs to increase further due to recent surge in diesel prices



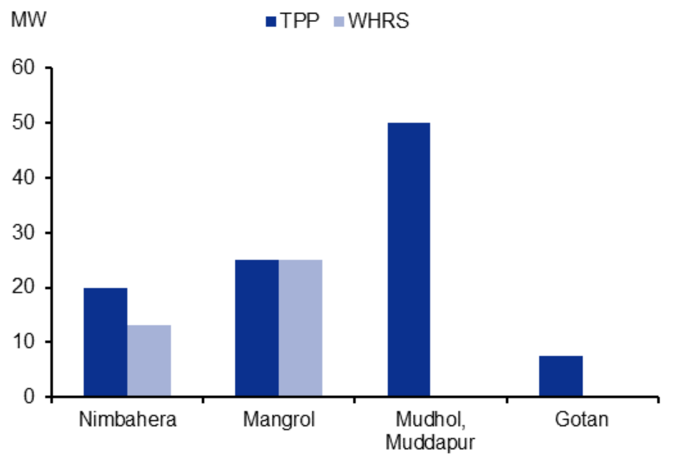
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 177: Blended P&F costs/t to stay elevated in the near term



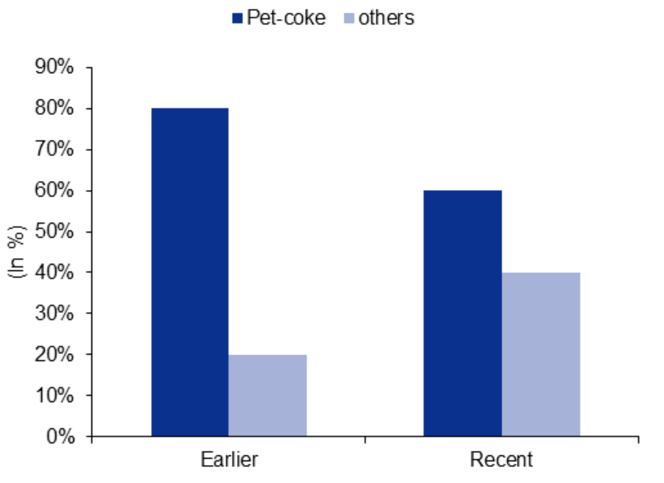
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 178: JKCE's total captive capacity (CPP + WHRS) now stands at 140MW



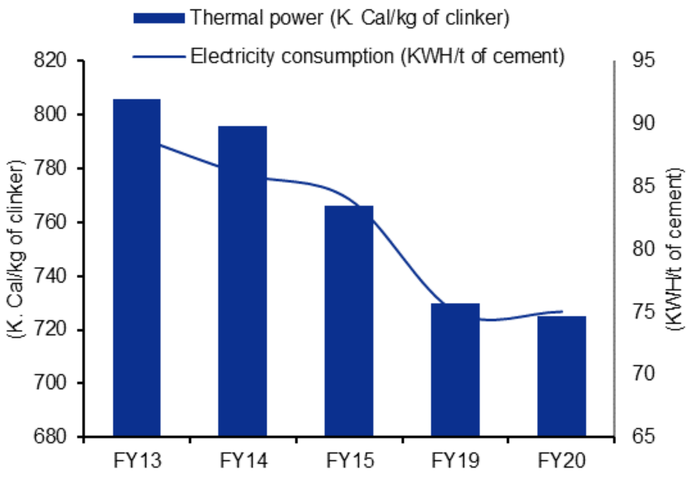
CPP = CAPTIVE POWER PLANTS, WHRS = WASTE HEAT RECOVERY SYSTEM
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 179: Share of imported coal likely to increase further due to surge in pet-coke prices



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 180: JKCE's power & fuel consumption



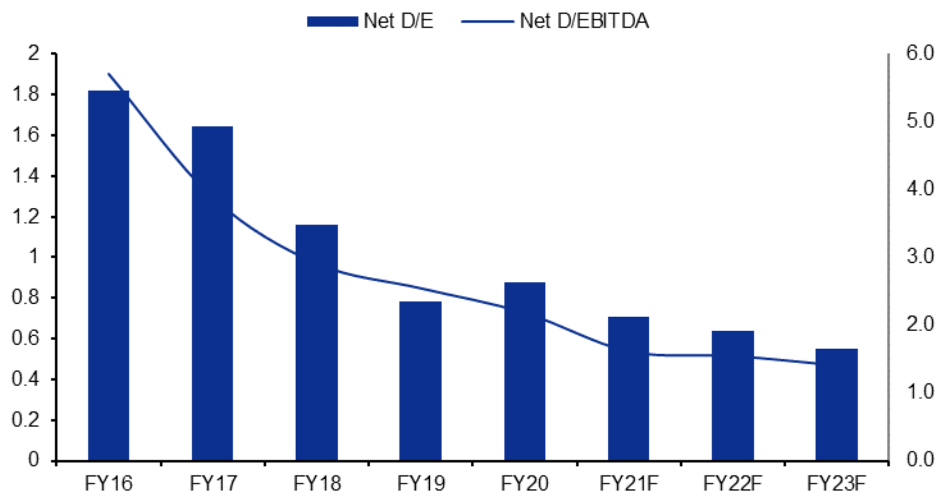
SOURCES: INCRED RESEARCH, COMPANY REPORTS

New expansion to keep leverage in check

Leverage to peak out post FY23F after factoring in new capex ➤

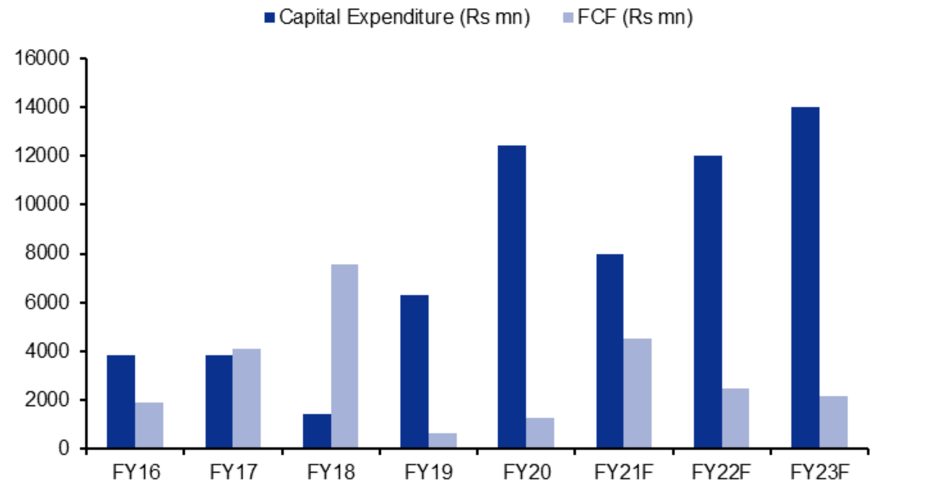
- Post expansion in FY15, JKCE gradually lowered its net D/E from ~2x in FY15 to 0.9x in FY20 and net debt/EBITDA from 6.5x in FY15 to 2x in FY20. Such deleveraging was aided by good operational performance from both segments.
- We believe JKCE's debt should peak out in FY23F, post completion of the current expansion. Strong demand recovery and improvement in blended EBITDA/t should lead to strong cash flows, further bringing down net D/E from ~0.7x in FY21F to ~0.5x by FY23F and net debt/EBITDA from ~1.6x in FY21F to 1.4x by FY23F.
- Current standalone gross debt was ~Rs28bn and net debt Rs14bn as on Dec 2020. JKCE expects to raise additional debt of ~Rs18bn-20bn for upcoming capex projects (Panna expansion), and partially offset net debt through cash generation. During its 3QFY21 earnings call, the company indicated it would have a net debt balance of ~Rs25bn through the next three years, while maintaining cash balance at Rs8bn-9bn.
- Capex efficiency, driven mostly by organic capex, will further help JKCE to achieve stronger RoCE, in our view. We believe JKCE has relatively strong EBIT margins and pre-tax RoCE comparable with large-cap peers like UltraTech/Ambuja for its exposure in high-margin white cement and the putty business.

Figure 181: Market share gains and sweating of new assets will improve cash flows and lower net debt/EBITDA from 2.2x in FY20 to 1.4x by FY23F



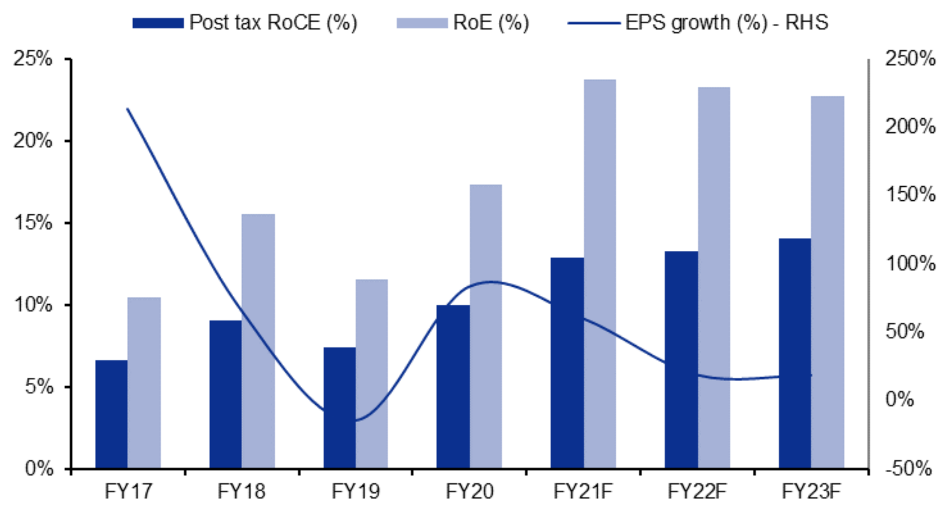
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 182: JKCE to incur huge capex for Panna expansion over FY21-23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 183: Return ratios to improve further



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Initiate with Hold rating, FY23F TP of Rs2,918

Valuation

- JKCE's favourable mix between grey cement and white cement + putty business aided the business during challenging times.
- After completing phase-I of its grey cement expansion, the company has made inroads in central and western Indian markets. North India will continue to dominate JKCE's geographical mix. The company's continuous focus on capacity addition, de-bottlenecking and improving contribution from new plants together with cost rationalisation initiatives should shore up operating profitability. We expect JKCE to deliver volume/blended realisations/EBITDA/t CAGR of 15%/1%/5% respectively over FY20-FY23F.
- At a CMP of Rs2,822, the stock is trading at FY22F/FY23F EV/EBITDA of 13.3x/11.7x. We initiate coverage on JKCE with a Hold rating and TP of Rs2,918 set at 12x FY23F EV/EBITDA – above its five-year historical average of 11x EV/EBITDA. Current valuations are broadly in line with their long-term average; however, the stock recently re-rated due to improved regional mix following its latest expansion, sustainable cost structure and improved profitability. We see limited triggers for a sustained re-rating.

Figure 184: Our target price of Rs2,918 is based on 12x FY23F EV/EBITDA

Valuation	TP
Target EV/EBITDA (x)	12.0
Target EV (Rs m)	2,53,616
Net debt (Rs m)	28,151
No. of shares (m)	77
Fair value per share (Rs)	**2,918**

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 185: We value the stock at 12x FY23F EV/EBITDA to arrive at Rs2,918 TP

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Risks

Downside risks

- Any further slowdown in cement demand. Cement demand growth was badly impacted in early CY20 due to the COVID-19 pandemic. Any prolonged slowdown in general construction activities across the country might impact JKCE's volume growth.
- Any major rollback in cement prices in central, northern and southern India/ further rise in input costs over the medium term to dent realisations and EBITDA/t.
- Delay in commissioning of ongoing capacity expansion at Panna.
- Increased competition from paints industry and imports in the wall putty segment might impact the company's white cement/wall putty division and our projections for the segment.

Upside risks

- Better-than-expected demand and pricing growth.
- Higher-than-expected rise in realisation due to strong demand, especially in its key market, would drive up profitability.
- Significant cost reductions and lower raw material costs (lower-than-expected fuel and freight cost, which accounts for ~60% of overall costs), providing better-than expected EBITDA/t.
- Better-than-expected margins in White cement/Wall putty segment.
- Any fresh announcement of new capacity addition or growth plan in the medium term

Company and management profile

Company background

- JKCE started operations with its first grey cement plant at Nimbahera, Rajasthan, in May 1975. JK Cement is an associate of the conglomerate JK Organisation founded by Lala Kamlapat Singhania. The company has over four decades of experience in manufacturing grey cement, white cement and wall putty.
- JK Cement is a leading grey cement manufacturer in North India. Currently, it has a grey cement capacity of 14.7mtpa and captive power capacity of 140MW (including 38MW of WHR). The company has one of the largest white cement capacities in India of 1.8mtpa (white cement capacity of 0.6mtpa and wall putty capacity of 1.2mtpa); UltraTech and Travancore Cement are the other major players. JKCE is also one of the major producers of white cement in the world with 0.6mtpa capacity in Fujairah, UAE. It sells grey cement under the JK Cement and JK Super Cement (premium cement) brands.
- JKCE has consistently reinvested its cashflow to build new capacity. The company raised its grey cement capacity from 4mtpa to 14.7mtpa by FY21.
- JK Cement has capacities in the North mainly in Rajasthan, an integrated plant in Mudhol, Karnataka, a wall putty plant in Katni, Madhya Pradesh, and a grey, white and putty capacity in Gotan, Rajasthan. Last year, JKCE expanded its grey cement capacity with grinding units in Aligarh, Uttar Pradesh, and Balasinor in Gujarat, giving it access to western India markets.
- JKCE has over 14,500 dealers and retailers for grey cement products across 16 key Indian states.

Figure 186: Pan-India presence for grey cement with enhanced reach in tier-2 and -3 cities of below states

16 States
Andhra Pradesh
Delhi
Goa
Gujarat
Haryana
Jammu & Kashmir
Karnataka
Kerala
Madhya Pradesh
Maharashtra
Punjab
Chandigarh
Rajasthan
Tamil Nadu
Uttarakhand
Uttar Pradesh

SOURCES: INCRED RESEARCH, COMPANY REPORTS

- The company has over 56,000 dealers and retailers to market white cement and white cement-based wall putty across India. JKCE has a global market presence in ~45 countries for white cement.

JKCE's milestone

Figure 187: JKCE's journey from incorporation

1975	**Entered the cement business and started operations at Nimbahera plant with a 0.3mtpa fry process unit.**
1979	Doubled capacity from 0.3mtpa to 0.72mtpa by adding second line at Nimbahera.
1982	Added third production line, increasing capacity from 0.72mtpa to 1.14mtpa at Nimbahera plant.
1984	Commenced a lime-based white cement plant at Gotan, with a capacity of 0.05mtpa.
1987	Installed a pre-calciner at Nimbahera; capacity enhanced to 1.54mtpa and installed first captive power plant at Bamania, Rajasthan.
2001	Established a new grey cement plant with a capacity of 0.75mtpa at Mangrol, Rajasthan.
2004	Expanded capacity at Nimbahera, Rajasthan to 2.8mtpa.
2006	Raised Rs3bn in an IPO to fund its 43MW power project, including 13MW of WHRS, completed by FY08 and enhanced white cement capacity to 0.3mtpa.
2007	Entered white cement-based putty segment with 0.05mtpa capacity, enhanced grey cement capacity at Nimbahera by 0.5mtpa, enhanced white cement capacity to 0.4mtpa.
2009	Commissioned a 3mtpa greenfield plant in South India at Muddapur, Karnataka.
2011-12	JKCE announced it would double its grey cement capacity by 2015, which was later extended to FY19-20.
2012-13	Commissioned putty capacity of 0.3mtpa at Gotan, Rajasthan.
	Enhanced white cement capacity at Gotan by 0.2mtpa, increasing total white cement capacity to 0.6mtpa.
	Established its first international plant at Fujairah, UAE, with 0.6mtpa white cement capacity and doubled its debt to meet its planned capex.
2014	Commissioned 1.5mtpa GU for grey cement at Jhajjar, Haryana, and 1.5mtpa grey cement capacity at Mangrol, Rajasthan, and expanded wall putty capacity to 0.5mtpa at Gotan, Rajasthan.
2016	Set up a 0.2mtpa wall putty plant in Katni, Madhya Pradesh.
2017- 2018	Launched new brand logo, JK Super Cement "Build Safe".
	JK raised Rs5bn through QIP to fund its 4.2mtpa expansion (40% of existing capacity).
2019	JKCE expanded its wall putty capacity by 0.2mtpa at Katni in May 2018 and plans to further expand it by an additional 0.3mtpa in FY21.
	JKCE also has a long-term plan to set up 3.5m-4mtpa integrated capacity at Panna, Madhya Pradesh, to achieve ~18.5mtpa capacity by CY22.
2020	Nimbahera Cement GU of 1mtpa, Mangrol Clinkerisation of 2.6mtpa and Cement Grinding of 1mtpa, and Aligarh Cement GU of 1.5mtpa have been commissioned and commercial dispatches started.
	Work for 0.7mtpa GU at Balasinor was stopped due to the lockdown and migration of labour due to the COVID-19 pandemic.
2021	JKCE commissioned 0.7mtpa grey cement grinding capacity at Balasinor, Gujarat, and commenced commercial dispatches from 8 Oct 2020.
	JKCE implemented additional capacity of 0.3mtpa of white cement-based wall putty at Katni and commenced commercial dispatches from 19 Oct 2020.
	Nimbahera Line 3 upgradation work resumed and is expected to be completed in 2QFY22.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

JKCE's product portfolio ›

Figure 188: JKCE has strong brand presence in grey and white/putty cement across ~~regions~~ India

SOURCES: INCRED RESEARCH, JKCE 3QFY21 RESULTS PRESENTATION

Figure 189: Grey cement – OPC

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 190: JK Super – PPC and PSC

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 191: JK Super strong

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 192: JK white cement – 40kg bag

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 193: JKCE wall putty

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 194: JKCE VAP – PrimaxX

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 195: JKCE VAP – GypsoMaxX

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 196: JKCE VAP – ShieldMaxX

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Annexure

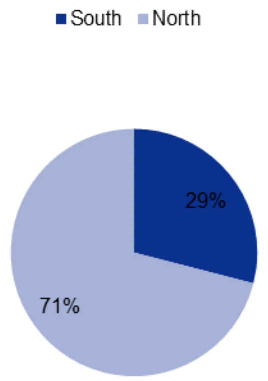
Region-wise capacity details

Figure 197: JKCE region-wise capacity of Grey and white cement and wall putty

Capacity (MTPA)	Year of commissioning	Integrated/grinding	State	FY21
Integrated units				
Nimbahera	1975 and 2020	I	Rajasthan	4.3
Mangrol	2004 and 2020	I	Rajasthan	3.3
Gotan	2007	I	Rajasthan	0.47
Muddapur	2009	I	Karnataka	3
Jhajjar	2014	G	Haryana	1.5
Aligarh	2020	G	Uttar Pradesh	1.5
Balasinor	2021	G	Gujarat	0.7
Total				**14.7**
White Cement				
Gotan, Nagpur	1984		Rajasthan	0.6
Fujairah	2014		UAE	0.6
Total				**1.2**
Wall putty				
Gotan, Nagpur	2007		Rajasthan	0.5
Katni	2016 and 2021		Madhya Pradesh	0.7
Total				**1.2**

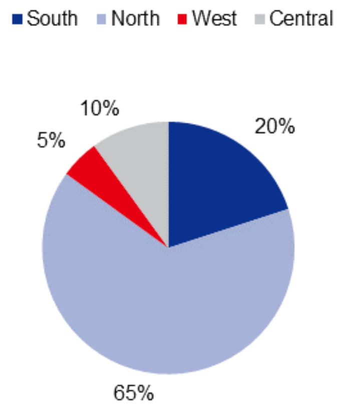
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 198: Pre-expansion (Phase-1) regional share of JKCE in FY20



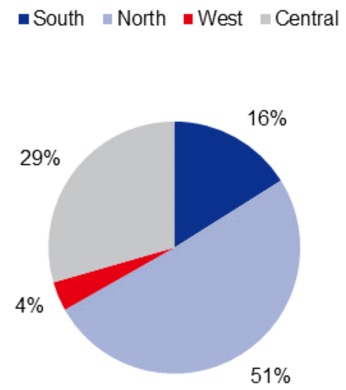
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 199: Post-expansion (current) regional share of JKCE in FY21



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 200: Post Panna expansion regional mix in FY24F

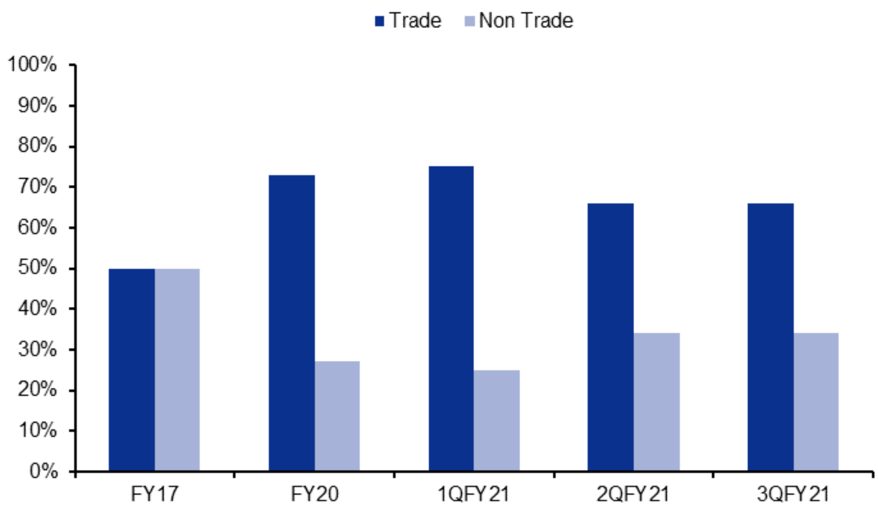


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Increasing share of trade

JKCE has increased its trade share mix from 50% in FY16 to 75% in FY20 (~66% in 3QFY21).

Figure 201: Trade share mix of JKCE



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Subsidiary performance dragged company cash flows

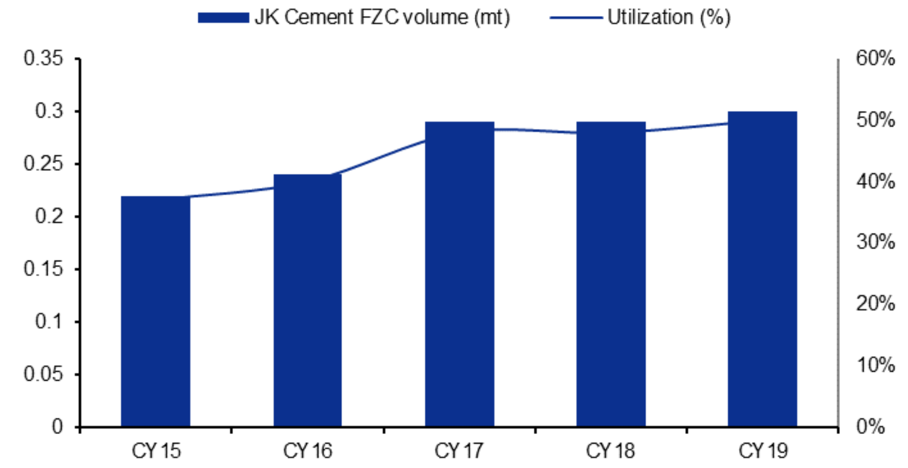
- In FY14, JKCE established JK Cement Works (Fujairah) – its first international plant – in the UAE with white cement capacity of 0.6mtpa at an outlay of Rs7.5bn. According to management's earlier guidance, international operations will break even by FY21; however, we remain cautious at least for the near term.
- JKCE has recognised a provision towards diminution of carrying amount of investment in JK Cement Works (Fujairah) FZC (Free Zone Company) by Rs1.61bn and provided for outstanding receivables of Rs160m from FZC. During its 1QFY21 earnings call, management highlighted it would have to support the international subsidiary in meeting its scheduled repayments of US$15m-18m in FY21 given the severe impact of COVID-19 on its business.
- JKCE's entry into the UAE's cement market has been a major drag on its cash flows and return metrics; turnaround/divestment will be the key trigger ahead. Management is looking to improve capacity utilisation by exporting to global markets. Capacity utilisations stood at 60-65% in 9MFY21 and currently ~15% of UAE sales comes to India, which will increase to 20-25% over the next two years.

Figure 202: JKCE entered the UAE market in CY14

Company	Details
Subsidiary	JK Cement Works (Fujairah) FZC
Year of commissioning	2014
Operations commencing	Sep-14
Capacity (mt)	0.6 white cement (or) 1.0 grey cement
Capital outlay	~Rs7.5bn

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 203: JK Cement Works (Fujairah) capacity utilisation over the years



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Financial performance of subsidiary companies

Figure 204: J.K. Cement (Fujairah) FZC (Rs m)

J.K. Cement (Fujairah) FZC	CY16	CY17	CY18	CY19
Share Capital	4,033	2,039	1,519	5,561
Reserves & Surplus	-1,014	-1,640	52	19.5
Total Assets	10,160	10,386	4,824	6,033
Total Liabilities	7,140	9,988	3,253	452.8
Investment	**0**	**0**	**0**	**5,543**
Total Income	**2,321**	**2,659**	**111**	**118**
PBT	-409	-447	27	26.6
PAT	**-409**	**-447**	**27**	**82.2**
% of Holding	100	100	100	100

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 205: J.K. Cement Works (Fujairah) FZC (Rs m)

J.K. Cement Works (Fujairah) FZC	CY16	CY17	CY18	CY19
Share Capital	3,851	1,983	1,552	1,694
Reserves & Surplus	-17	-33	-2123	-3026
Total Assets	3,836	4,551	9,256	9,763
Total Liabilities	1	2,601	9,828	11095
Investment	**3834**	**4415**	**0**	**0**
Total Income	**0**	**69**	**2623**	**2847**
PBT	-1	3	-557	-669
PAT	**-1**	**3**	**-557**	**-669**
% of Holding	90	90	90	90

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 206: Jaykaycem (Central) Ltd. (Rs m)

Jaykaycem (Central) Ltd.	CY16	CY17	CY18	CY19
Share Capital	66	66	104	109
Reserves & Surplus	0	-1	764	860
Total Assets	491	528	870	971
Total Liabilities	425	462	1	2
Investment	-	-	-	-
Total Income	**-**	**0**	**5**	**3**
PBT	0	0	-9	2
PAT	**0**	**0**	**-6**	**0**
% of Holding	100	100	100	100

SOURCES: INCRED RESEARCH, COMPANY REPORTS

SWOT Analysis

Figure 207: JK Cement SWOT Analysis

Strength	Weakness
Strong franchise of white/putty division. Favourable regional exposure. Timed expansion to capture any incremental demand.	Prolonged slowdown in general construction activity across India. Further increase in input costs. Any fall in cement prices.
Opportunity	**Threat**
Market share gain in the newer region.	Any delay in planned capacity expansion. Market share loss in any of the regions.

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Key management profile

The company is promoted by the Singhania family. Post the death of Mr. Yadupati Singhania, Chairman and MD in Aug 2020, the board revamped its management structure:

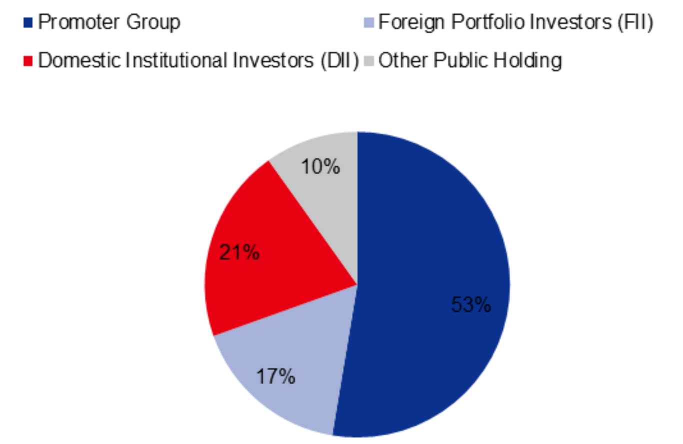
- Mrs. Sushila Devi Singhania, mother of Mr Yadupati Singhania, is the Chairman (earlier Director in JKCE Board)
- Mr Raghavpat Singhania is the MD. He was previously ED (Corporate Affairs & White Cement).
- Mr Madhavkrishna Singhania is the Deputy MD and CEO. He was previously ED (Grey Cement).
- Mr Ajay Kumar Saraogi is the Deputy MD and CFO. He was previously ED and CFO.
- Mrs Kavita Y Singhania, wife of Late Mr. Yadupati Singhania, is the Additional Director.

Figure 208: Board of directors based on FY20 annual report. Following the death of the Chairman and MD, the board revamped the management structure

Name	Type of Directorship
Yadutpati Singhania	Managing Director
Sushila Devi Singhania	Non-Executive, Non Independent
A. Karati	Independent
J N Godbole	Independent
Dr. K B Agarwal	Independent
Paul Heinz Hugentobler	Independent
Suparas Bhandari	Independent
Deepa Gopalan Wadhwa	Independent
Sudhir Jalan	Non-Executive, Non Independent
Saurabh Chandra	Independent
Ashok Sinha	Non-Executive, Non Independent
Recent Additions	
Raghavpat Singhania	COO- White Cement
Madhavkrishna Singhania	COO- Grey Cement
Ajay Kumar Saraogi	President & CFO
Recent Cessation	
Raj Kumar Lohia	Non- Executive, Independent
K N Khandelwal	Non- Executive, Non Independent

JKCE ANNUAL REPORT FY20
SOURCES: INCRED RESEARCH, COMPANY REPORTS

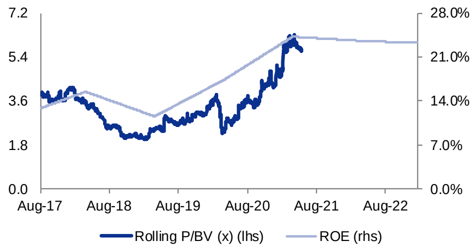
Figure 209: Shareholding pattern (Mar 2021)



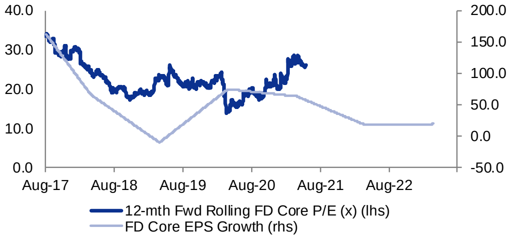
SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Net Revenues	**52,587**	**58,016**	**67,030**	**79,595**	**89,351**
Gross Profit	**52,587**	**58,016**	**67,030**	**79,595**	**89,351**
Operating EBITDA	**8,345**	**12,134**	**16,022**	**18,481**	**21,135**
Depreciation And Amortisation	(2,413)	(2,880)	(3,168)	(3,548)	(3,690)
Operating EBIT	**5,932**	**9,255**	**12,855**	**14,933**	**17,445**
Financial Income/(Expense)	(2,611)	(2,764)	(2,667)	(2,747)	(2,678)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	804	853	1,067	1,109	1,154
Profit Before Tax (pre-EI)	**4,124**	**7,344**	**11,255**	**13,296**	**15,920**
Exceptional Items					
Pre-tax Profit	**4,124**	**7,344**	**11,255**	**13,296**	**15,920**
Taxation	(1,488)	(2,511)	(3,264)	(3,856)	(4,617)
Exceptional Income - post-tax					
Profit After Tax	**2,636**	**4,834**	**7,991**	**9,440**	**11,304**
Minority Interests	67	130	130	130	130
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**2,703**	**4,964**	**8,121**	**9,570**	**11,434**
Recurring Net Profit	2,703	4,964	8,121	9,570	11,434
Fully Diluted Recurring Net Profit	**2,703**	**4,964**	**8,121**	**9,570**	**11,434**

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
EBITDA	8,345	12,134	16,022	18,481	21,135
Cash Flow from Invt. & Assoc.					
Change In Working Capital	278	2,357	1,771	1,918	1,552
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	804	853	1,067	1,109	1,154
Other Operating Cashflow	(850)	(444)	(444)	(444)	(444)
Net Interest (Paid)/Received	(2,611)	(2,764)	(2,667)	(2,747)	(2,678)
Tax Paid	977	1,530	(3,264)	(3,856)	(4,617)
Cashflow From Operations	**6,942**	**13,668**	**12,486**	**14,463**	**16,102**
Capex	(6,314)	(12,428)	(8,000)	(12,000)	(14,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,710)	(2,338)	(2,705)	(4,000)	(2,000)
Cash Flow From Investing	**(8,023)**	**(14,765)**	**(10,705)**	**(16,000)**	**(16,000)**
Debt Raised/(repaid)	(547)	3,683	500	4,000	3,000
Proceeds From Issue Of Shares	5,043				
Shares Repurchased					
Dividends Paid	(843)	(1,630)	(1,769)	(1,737)	(1,868)
Preferred Dividends					
Other Financing Cashflow	(1,926)	(3,138)	574	574	574
Cash Flow From Financing	**1,726**	**(1,085)**	**(695)**	**2,837**	**1,706**
Total Cash Generated	645	(2,182)	1,086	1,299	1,808
Free Cashflow To Equity	**(1,628)**	**2,585**	**2,281**	**2,463**	**3,102**
Free Cashflow To Firm	**1,530**	**1,666**	**4,448**	**1,209**	**2,780**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Cash And Equivalents	8,499	6,355	7,441	8,740	10,548
Total Debtors	2,572	2,677	3,122	3,707	4,162
Inventories	6,239	6,904	7,529	8,941	10,037
Total Other Current Assets	3,144	6,410	5,698	5,572	4,914
Total Current Assets	**20,454**	**22,345**	**23,790**	**26,960**	**29,661**
Fixed Assets	45,367	52,479	57,312	65,764	76,074
Total Investments	440	448	448	448	448
Intangible Assets	5,744	5,295	8,000	12,000	14,000
Total Other Non-Current Assets	2,121	4,852	4,852	4,852	4,852
Total Non-current Assets	**53,672**	**63,075**	**70,612**	**83,064**	**95,374**
Short-term Debt	5,333	5,804	5,804	5,804	5,804
Current Portion of Long-Term Debt					
Total Creditors	4,335	4,918	5,858	7,218	8,297
Other Current Liabilities	6,429	7,525	8,714	11,143	12,509
Total Current Liabilities	**16,098**	**18,247**	**20,376**	**24,165**	**26,611**
Total Long-term Debt	24,398	27,035	27,535	31,535	34,535
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	6,681	10,064	10,064	10,064	10,064
Total Non-current Liabilities	**31,079**	**37,099**	**37,599**	**41,599**	**44,599**
Total Provisions					
Total Liabilities	**47,177**	**55,346**	**57,975**	**65,764**	**71,210**
Shareholders Equity	27,022	30,277	36,629	44,462	54,028
Minority Interests	(72)	(203)	(203)	(203)	(203)
Total Equity	**26,950**	**30,074**	**36,426**	**44,259**	**53,825**

Key Ratios

	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue Growth	8.5%	10.3%	15.5%	18.7%	12.3%
Operating EBITDA Growth	6.0%	45.4%	32.0%	15.3%	14.4%
Operating EBITDA Margin	15.9%	20.9%	23.9%	23.2%	23.7%
Net Cash Per Share (Rs)	(274.78)	(342.76)	(335.18)	(370.13)	(385.56)
BVPS (Rs)	349.72	391.84	474.05	575.42	699.23
Gross Interest Cover	2.27	3.35	4.82	5.44	6.51
Effective Tax Rate	36.1%	34.2%	29.0%	29.0%	29.0%
Net Dividend Payout Ratio	31.2%	32.8%	21.8%	18.2%	16.3%
Accounts Receivables Days	17.11	16.51	15.79	15.66	16.07
Inventory Days	42.12	41.34	39.30	37.76	38.76
Accounts Payables Days	45.32	36.81	38.55	39.05	41.51
ROIC (%)	10.9%	14.0%	17.9%	18.1%	18.7%
ROCE (%)	11.2%	15.5%	19.4%	19.7%	19.9%
Return On Average Assets	7.6%	9.5%	11.9%	11.9%	11.9%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

CGSCIMB

InCred Equities

INITIATION

Company Note

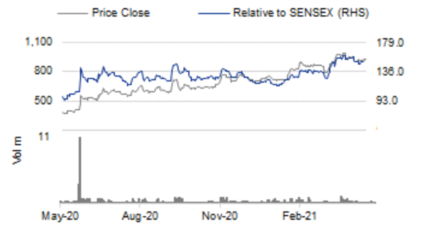
Cement | India | May 20, 2021

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 19 Hold 0 Sell 0
Current price:	Rs1,202
Target price:	Rs1,357
Previous target:	NA
Up/downside:	12.9%
InCred Research / Consensus:	0.4%
Reuters:	BRLC.BO
Bloomberg:	BCORP IN
Market cap:	US$1,267m
	Rs92,564m
Average daily turnover:	US$3.3m
	Rs240.5m
Current shares o/s:	77.0m
Free float:	37.5%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	25.7	35.2	210.7
Relative (%)	20.0	37.1	86.9

Major shareholders	% held
Promoter & Promoter Group	62.9
Nippon Life India Trustee Ltd	4.8
ICICI Prudential	1.7

Birla Corporation Ltd

Re-rating likely to persist

- BCORP, the M.P. Birla Group's flagship company, has an installed cement capacity of 15.4mtpa currently spread across Central, North and East India.
- We expect capacity expansion to aid volume growth over FY21-23F. Cost rationalisation should be aided by WHRS/CPP and railway siding project.
- We forecast volume/realisation/EBITDA/t CAGR of 11%/2%/1%, respectively, over FY21-FY23F. We initiate coverage on BCORP with Add and Rs1,357 TP.

Capacity expansion to aid above-industry volume growth

BCORP saw ~14% volume CAGR over FY16-FY20 as it successfully integrated and ramped up ~5.5mtpa of acquired capacities from Reliance Cement in FY17. Post the commissioning of the new plant by FY22F, we believe BCORP's capacity will increase by 25%, enabling it to make inroads into the newer markets of West India. BCORP is currently among the top 3 players in Central India and 55% of its capacity is based in the region. The key markets of Central and North India continue to see robust utilisation levels due to a favourable competitive scenario. All this combined should support its cement sales volume. Therefore, we build in ~11.5% volume CAGR over FY21-FY23F.

Cost optimisation in place, pricing stability to sustain profitability

BCORP's cost/t rose ~2% CAGR over FY16-FY20. The company has undertaken various initiatives to improve efficiency parameters, including the installation of waste heat recovery systems (WHRS)/captive power plants which would lead to power and fuel (P&F) cost savings at its older plants. The addition of modern Reliance Cement Company (RCCPL) plants has further aided efficiency improvements. The recent surge in input costs suggests a higher bar for BCORP's incremental savings, while its core markets will likely see pricing stability aided by the company's focus on increasing contribution from the trade segment. Higher sales of blended cement will lead to slightly better pricing and RM cost savings, in our view. We build in a 0.7% EBITDA/t CAGR over FY21-FY23F.

Leverage to stay elevated till FY22F

Due to the ongoing capex and adverse impact on profitability due to COVID-19, leverage is likely to remain elevated in the near term. However, post the commissioning of the capacity, we believe strong cash flows from the full utilisation of the expanded capacity should lead to a gradual reduction in net debt/EBITDA to 1.8x in FY23F from 2.6x in FY22F.

Re-rating still half done; initiate with Add

At CMP of Rs1,202, BCORP is trading at an EV/EBITDA of 8.9x/7.3x for FY22F/FY23F, vs. its 10-year average of 8x and five-year average of 8.5x. We initiate coverage with Add and TP of Rs1,357 set at 8x at FY23F EV/EBITDA – at a discount to its five-year average as we await clarity on a few operational challenges. Downside risks: Any delay in capacity expansion, delay in the receipt of incentives, the ownership dispute, and a rise in fuel costs.

Financial Summary	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Revenue (Rsm)	65,487	69,157	67,855	76,063	88,117
Operating EBITDA (Rsm)	9,486	13,360	13,376	14,299	16,849
Net Profit (Rsm)	2,557	5,052	6,880	5,935	7,397
Core EPS (Rs)	33.2	65.6	89.3	77.1	96.1
Core EPS Growth	53.6%	97.6%	36.2%	(13.7%)	24.6%
FD Core P/E (x)	36.20	18.32	13.45	15.60	12.51
DPS (Rs)	7.5	7.5	10.0	9.4	11.7
Dividend Yield	0.75%	0.76%	1.01%	0.95%	1.18%
EV/EBITDA (x)	13.25	9.44	9.55	9.02	7.29
P/FCFE (x)	23.67	26.84	17.66	42.14	60.25
Net Gearing	73.6%	69.7%	64.2%	60.8%	45.8%
P/BV (x)	2.06	1.93	1.69	1.54	1.40
ROE	5.8%	10.9%	13.4%	10.3%	11.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)				1.06	1.06

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 18 MAY 2021

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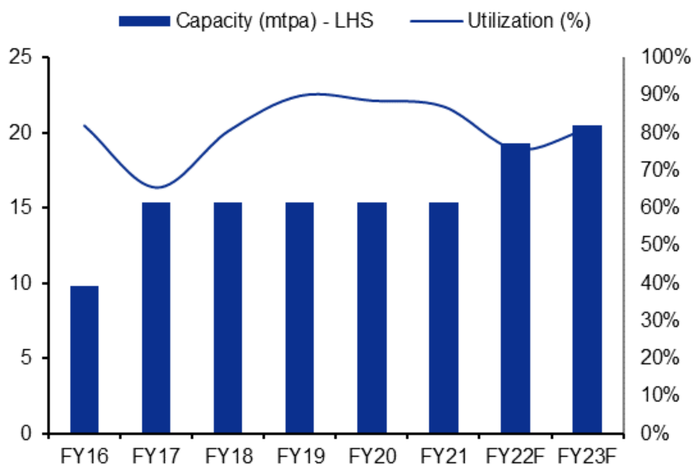
Re-rating likely to persist

Expansion to aid above-industry volume growth

New capacity to push volume growth from FY22F

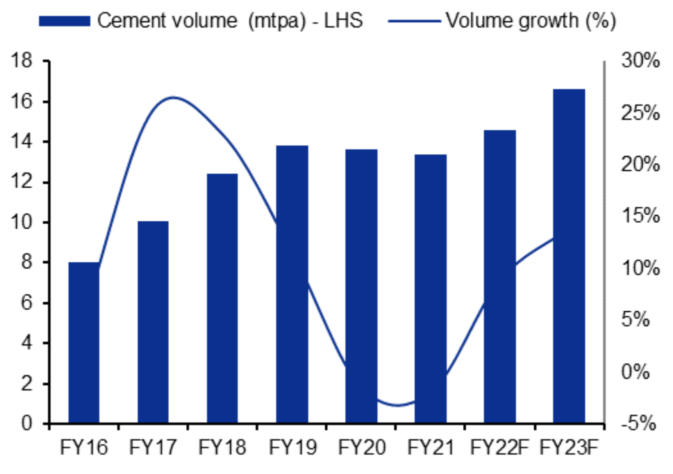
- BCORP posted ~14.5% volume CAGR over FY16-FY20, mainly led by a ramp-up of BCORP's capacity with the acquisition of a Reliance plant and a steady increase in dispatches from BCORP's Rajasthan plant. Utilisation levels improved from 82% in FY16 to 90% in FY19, even after the acquisition of 5.6mtpa of capacity from the erstwhile Reliance Cement (now a wholly-owned subsidiary of BCORP). However, the capacity utilisation rate in FY20 fell to ~88% as the lockdown hit the last quarter of FY20 (volumes declined by ~12% in 4QFY20) while it touched pre-COVID levels of ~92% in 3QFY21 (one of the highest in the industry) and recently operated at ~108% in 4QFY21.
- BCORP's capacity grew at 7% CAGR, from 7.5mtpa in FY10 to 15.4mtpa in FY20 through a combination of organic (greenfield) and inorganic routes. In FY17, the company acquired RCCPL cement assets with a clinker capacity of 3.3mtpa and grinding capacity of 5.6mtpa (~36.5% of BCORP's consolidated cement capacity). This helped scale up grinding capacity to 15.4mtpa, secure limestone mines in the central region and further strengthened the availability of raw materials (RM).
- BCORP is present in the northern and central regions of India and post capacity expansion (~33% increase over existing capacity) will have a significant foothold in western India, aiding incremental volume growth for the company. BCORP sales volume declined by ~2% in FY21, in line with our estimates of ~2% decline for the industry as cement demand started to recover as soon as lockdown restrictions were relaxed from 2QFY21. Volumes grew by ~24.5% in 4QFY21 (on a low base). We believe with meaningful demand to rebound from 2HFY22F along with expanded capacity; therefore, we build in ~11.5% volume CAGR over FY21-FY23F.

Figure 210: Total cement capacity to touch ~21mtpa by FY23F post ongoing capex



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 211: Expect ~11.5% volume CAGR over FY21-FY23F led by sustainable demand momentum from rural, retail and IHB segments along with expanded capacities



IHB = INDIVIDUAL HOME BUILDERS
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

- **New capacities:** a) In FY19, the company started constructing a greenfield capacity of 3.9mtpa cement and 2.6mtpa of clinker capacity at Mukutban, Maharashtra, which BCORP expects to commission by 3QFY22-end or Dec 2021 (delayed due to COVID-19 and labor availability concern); this plant will also have a CPP of 40MW, a WHRS of 9MW and a railway siding (total capex: Rs24.5bn). b) BCORP intended to expand its Kundanganj, Uttar Pradesh, grinding unit by 1.2mtpa (capex: ~Rs2.5bn), which is expected to be completed by 1QFY23F (earlier expansion was put on hold as BCORP awaited clarity on demand recovery), c) while a Rs1.5bn project to scale up kiln capacity at Chanderia in Rajasthan is nearing completion and will be hooked up during the next planned shutdown (1QFY22F) of the plant. According to the company, this will augment capacity by around 400k tonnes, or 0.4mtpa, which will take the total capacity to 20.5mtpa by FY23. As per a media interview with CNBCTV18, BCORP is looking to (1) double its capacity in Maihar, Madhya Pradesh, to 3mtpa, (2) add a grinding unit in Bihar and expand grinding capacity in Chanderia, Rajasthan, at a total investment of Rs23.5bn to reach its target capacity of 25mtpa by 2025.

Figure 212: Current cement capacity and addition over FY23

Plants	States	Region	Capacity (mtpa)
Satna	Madhya Pradesh	Central	2.2
Chanderia	Rajasthan	North	4
Raebareli & Raebareli Hitech	Uttar Pradesh	Central	1.3
Durgapur	West Bengal	East	2.3
Maihar	Madhya Pradesh	Central	3
Kundanganj	Uttar Pradesh	Central	2
Butibori	Maharashtra	West	0.58
Current capacity			**15.4**
Kundanganj	Uttar Pradesh	Central	1.2
Mukutban	Maharashtra	West	3.9
Additions by FY23			**5.1**
Total capacity			**20.5**
Expansion (%)			**33%**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 213: Current clinker capacity and addition over FY23

Plants	States	Region	Capacity (mtpa)
Satna	Madhya Pradesh	Central	3.4
Chanderia	Rajasthan	North	3.3
Maihar	Madhya Pradesh	Central	3.3
Current capacity			**10.0**
Mukutban	Maharashtra	West	2.6
Additions by FY23			**2.6**
Total Capacity			**12.6**
Expansion (%)			**26%**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 214: Status of ongoing expansion capex plan

Plants	Location	Clinker capacity (mt)	Cement capacity (mt)	Project cost (Rs bn)	Expected time of completion	Assets
Kundanganj	Uttar Pradesh, Central	-	1.2	2.5	1QFY23F (earlier put on hold)	
Mukutban	Maharashtra, West	2.6	3.9	24.5	3QFY22F	Railway siding, CPP 40MW and WHRS 9MW
Chanderia	Rajasthan, North	0.4		1.5	1QFY22F	

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 215: BCORP's power plant capacities (FY21)

Plant	Location	Coal-based (MW)	Solar power (MW)	WHRS (MW)
Chanderia	Rajasthan, North	29.8	3	9
Maihar	Madhya Pradesh, Central	0	7.7	12.3
Satna	Madhya Pradesh, Central	27	2.2	15
Total capacity		**56.8**	**12.9**	**36.3**
Additions by FY23				
Mukutban	Maharashtra, West	40	0	9
Total capacity		**96.8**	**12.9**	**45.3**

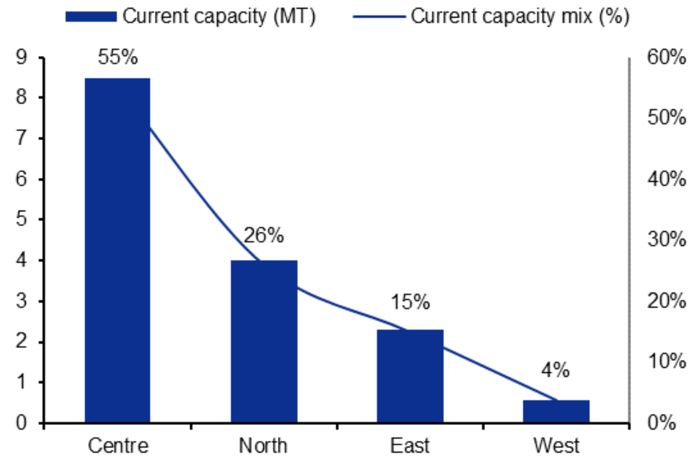
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Geographical mix to remain advantageous for the company ›

- India's central/northern regions are BCORP's key markets, currently contributing ~55%/ ~26% of the company's total capacity and eastern/western regions 15%/4%. BCORP is currently among the top-3 players in the central region and derives 40-45% of its sales volumes from the region. Northern/eastern regions contributed ~25%/~29% with miniscule contribution from the western region as at FY20. However, post commissioning of the Mukutban plant in Maharashtra, BCORP should have a decent presence in the western market (capacity contribution to increase from 4% to 22%; Figure

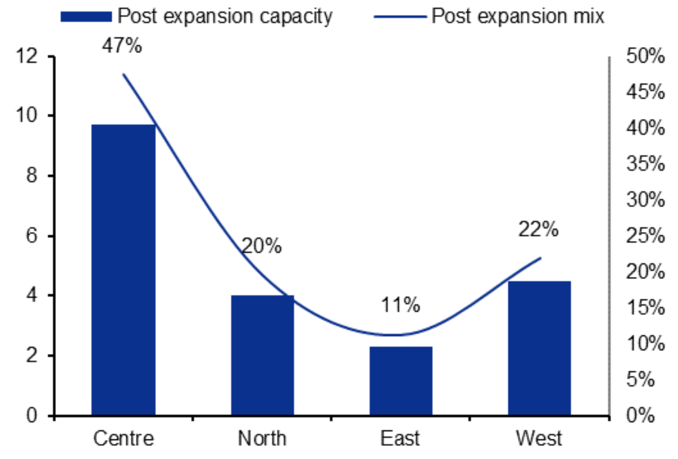
8). This should aid in getting incremental volume growth over the next three years.

Figure 216: Currently Central and North India comprise ~80% of BCORP's total capacity



SOURCES: INCRED RESEARCH, COMPANY REPORTS

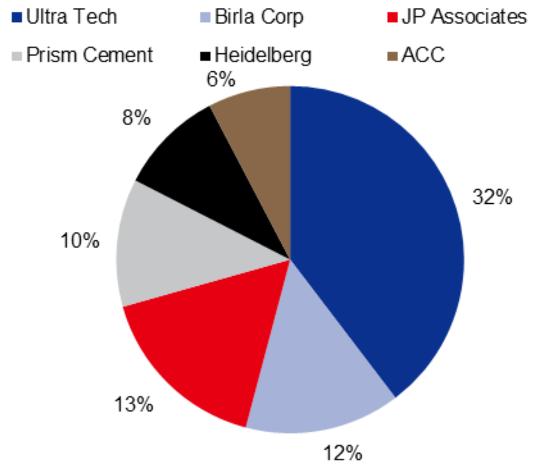
Figure 217: Post capacity expansion, West region's share mix in total capacity will rise to 22% by FY23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

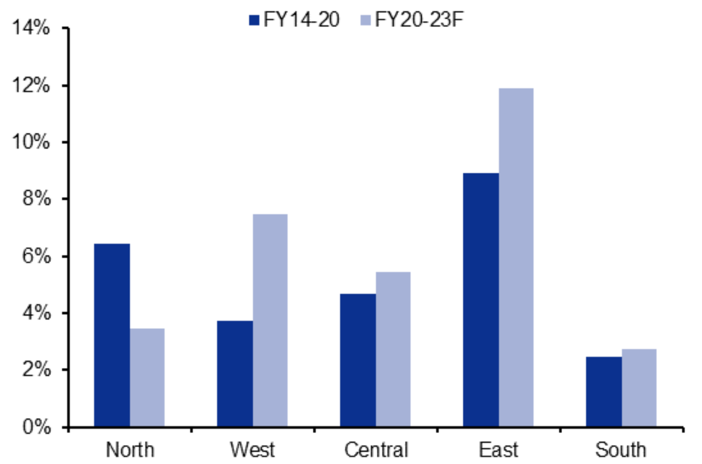
- As per our channel checks regarding regional demand in the recent past and foreseeable future, cement demand growth is virtually across the entire country, so it is not a particular area growing faster than the other.
- We believe there is consistent growth, except for the eastern and central parts of India which are growing at a rapid pace. The East and Central India markets were the fastest-growing markets in FY21 and will continue to be the fastest-growing markets as a lot of new projects have started in eastern and central India.
- There is an emphasis on infrastructure – a huge road network is coming up in these markets as traditionally they lagged other markets in development and growth terms. For example, compared with the northern or the southern markets, the eastern and central markets are lagging. With these new projects, demand for cement has shot up in these two markets and both regions will continue to perform as infrastructure projects are long term. In the next three to four years, we expect a substantial increase in road construction in both markets as new airports are coming up and new ports and mega projects being developed in parts of Odisha. All these are driving demand in the East and Central India clusters, as per our checks.

Figure 218: BCORP is currently a top-3 player in Central India in terms of capacity share



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 219: Central and North India to see lower capacity addition (CAGR) leading to favourable demand-supply scenario



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

- As per our understanding, the western/northern/southern parts of India will grow, but relatively slower than the central and eastern markets. However, in the near term, factors such as varying base effects and state elections will drive cement industry growth by region − especially over the next two years. We expect South and West India to see strong growth in FY22F, led by recovery from a low base. However, factoring in volume CAGR for FY21F-25F across regions, East and Central India will continue to lead growth with ~11-12% CAGR (compared to 7-8% CAGR for the industry). However, we expect 10m-11mtpa of capacity addition in North India and 14m-15mtpa in Central India over FY21F-23F.
- Demand in East India grew strongly over the past four to five years and remained relatively resilient in 9MFY21. We expect 35m-36mtpa capacity addition in East India over FY21F-FY23F, ~40% of the region's FY20-end capacity. Demand in this market (most states) spiked in the past one year and was particularly strong in the rural/semi-urban areas of Bihar and West Bengal. We believe part of the demand may also be the result of infrastructure demand, as both states recently had state assembly elections.

Figure 220: Upcoming cement capacities to be added in Central India over FY22F-23F

Company	Location	FY22F	FY23F
UltraTech Cement	Dhar, Madhya Pradesh	-	1.8
UltraTech Cement	Bara, Uttar Pradesh	1.3	-
Sagar Cement	Satguru, Dhar, Madhya Pradesh	1.5	-
ACC	Tikaria, Uttar Pradesh	-	1.6
ACC	Ametha, Uttar Pradesh	-	1.0
ACC	Katni, Madhya Pradesh	-	2.2
Birla Corporation	Kundanganj, Uttar Pradesh	-	1.3
JK Cement	Panna, Madhya Pradesh	-	2
Total		**2.8**	**9.9**

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 221: Upcoming cement capacities to be added in North India over FY22F-23F

Company	Location	FY22F	FY23F
Shree Cement	Sri Ganganagar, Pali, Rajasthan	-	-
Ambuja Cement	Nagaur, Rajasthan	1.9	-
JK Lakshmi Cement	Udaipur, Rajasthan	-	2.5
UltraTech Cement	Pali, Rajasthan	-	1.9
UltraTech Cement	Neem ka Thaana, Rajasthan		0.6
Wonder Cement	Chittorgarh, Rajasthan	-	2.0
Kashmir Cement	Pulwama, Jammu & Kashmir	0.4	-
Total		**2.3**	**7.0**

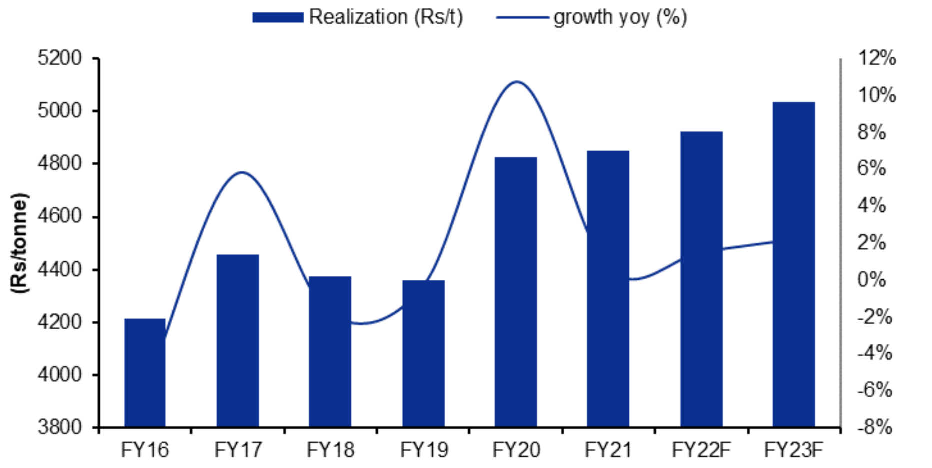
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Pricing discipline in key markets, focus on cost efficiencies to sustain EBITDA/t

Rising input costs may lower unitary EBITDA in FY22F

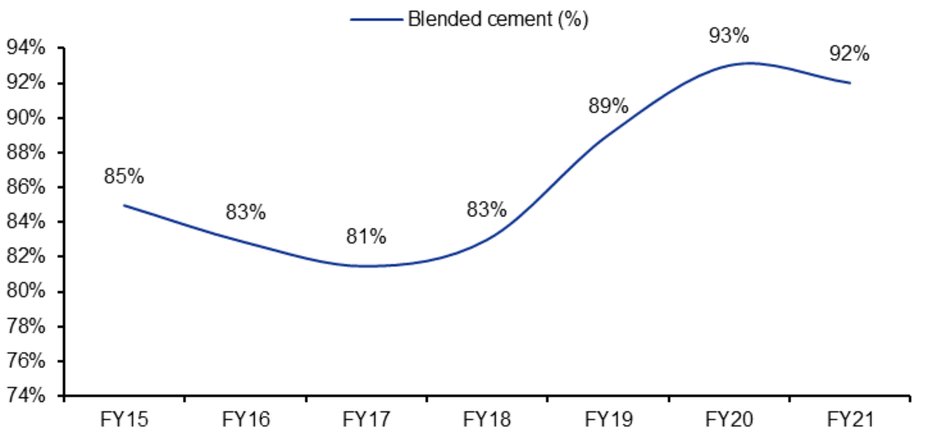
- BCORP's realisations grew at ~3% CAGR over FY16-FY20 led by: (a) favourable demand-supply scenario leading to better pricing; (b) increase in contribution from blended cement sales; (c) improved contribution of the trade segment in the product mix; and (d) focus on premium segment sales with premium brands growing ~8% in FY20 (~29% in 3QFY21) and accounting for ~41% of trade volume sales in FY20 (53% in 4QFY21 led by BCORP's consistent focus on independent home-builders), and (e) cost efficiencies leading to lower P&F costs and stricter control on employee expenses.
- BCORP faced difficulties in sourcing limestone and saw a resultant increase in procurement costs post the ban on blasting to extract limestone at its Chanderia mines in Rajasthan from FY12. Despite this, it controlled RM costs by adopting mechanical extraction at mines. Over FY16-FY20, RM cost/t fell 3% CAGR with a gradual increase in the contribution of blended cement (93% in FY20 vs. 81% in FY17). The addition of relatively new and modern RCCPL plants have led to efficiency improvements and BCORP kept its P&F cost/t down (~1% CAGR over FY16-FY20) as it commissioned its own CPP and WHRS capacities. As a result, total operating costs/t increased at only 2.1% CAGR over FY16-FY20.
- Government subsidies/incentives relating to its capacity in Central India also aided operating profitability. BCORP enjoys incentives for its Maihar plant (2.8mtpa capacity) which will last till Nov 2021, and for the Kundanganj grinding unit (GU) plant (2mtpa) for which incentives will last till mid-FY24F. Incentives contributed ~Rs132/t to overall consolidated operational EBITDA and about 13% to EBITDA in FY20.
- Better realisations, government incentives and stringent cost controls shored up BCORP's EBITDA/t growing by ~28% CAGR over FY16-20, improving from ~Rs356/t to nearly Rs967/t.
- Over the near term, we expect pricing to remain stable in North and Central India due to a favourable operating scenario and better recovery in utilisation levels vs. the rest of India. Western India might see some volatility in pricing as demand recovery might lag the other two regions. We build in a ~1.8% realization/t CAGR over FY21-FY23F.
- In FY20, BCORP commissioned a number of projects to achieve further cost savings over the next two years. These are the 11MW WHRS at Maihar, railway siding at Kundanganj, and the installation of solar power plants with aggregate power generation capacity of 12MW at Maihar, Satna and Chanderia. The company continues to ramp up its coal-mining capacity at its captive coal block located at Sial Ghogri, Madhya Pradesh, and once fully operational, we expect these mines to provide fuel security and cost optimisation. Also, the expanded capacity of ~1.2mtpa at Kundanganj is eligible for incentives for seven years post-date of commissioning. It expects to commission the new capacity at Mukutban, Maharashtra, by 3QFY22. The facility will be eligible for ~50% of gross SGST reimbursement for seven years on sales in the state.
- However, pet coke/international coal prices increased sharply in the last six months and companies could partly pass on rising input costs by way of price hikes and there could be some impact on per unit margins in the nearer term for BCORP, in our view. Therefore, we build in 0.7% EBITDA/t CAGR over FY21-23F, after factoring in stable realisations and focussed cost control.

Figure 222: Realisation/t to remain steady on account of favourable geographical mix



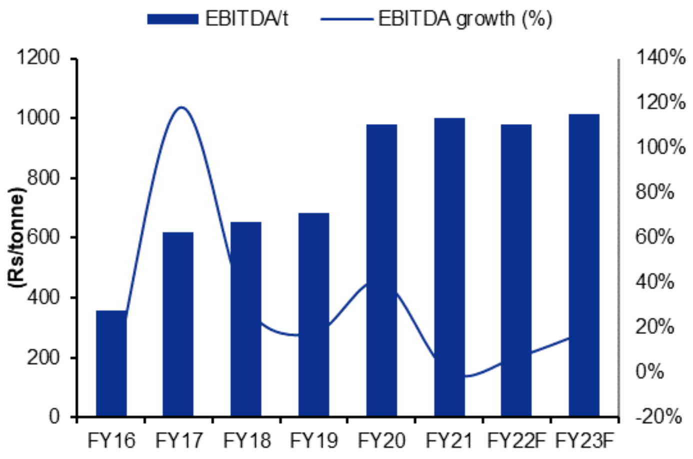
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 223: Share of blended cement contribution in sales rose steadily



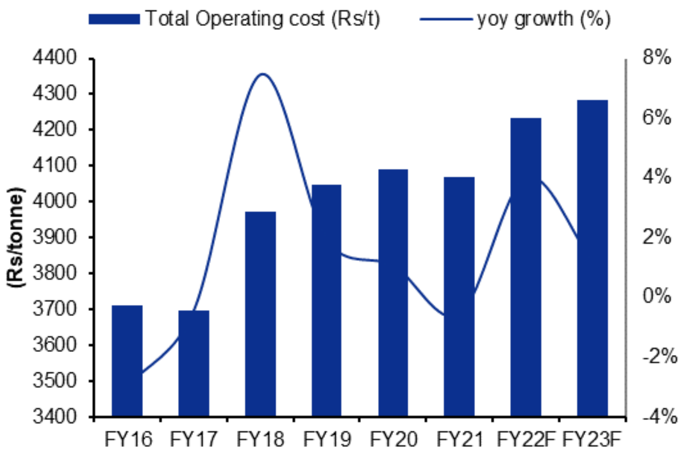
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 224: Expect unitary EBITDA to improve in FY23F post a marginal decline in FY22F due to escalation of input costs



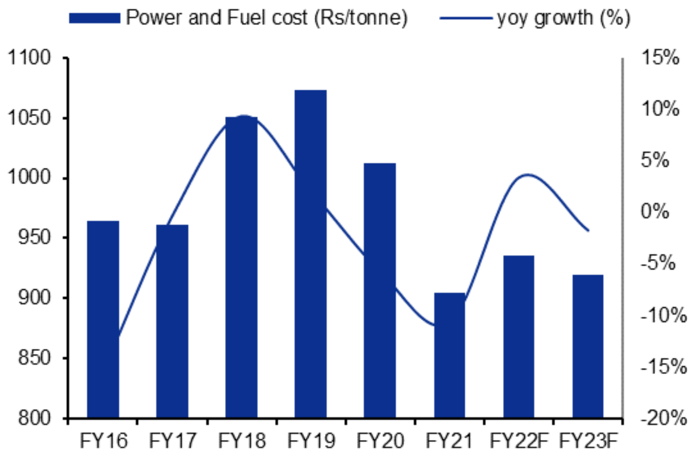
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 225: Expect total operating cost to increase significantly in FY22F due to higher cost inflation and acceleration in volumes



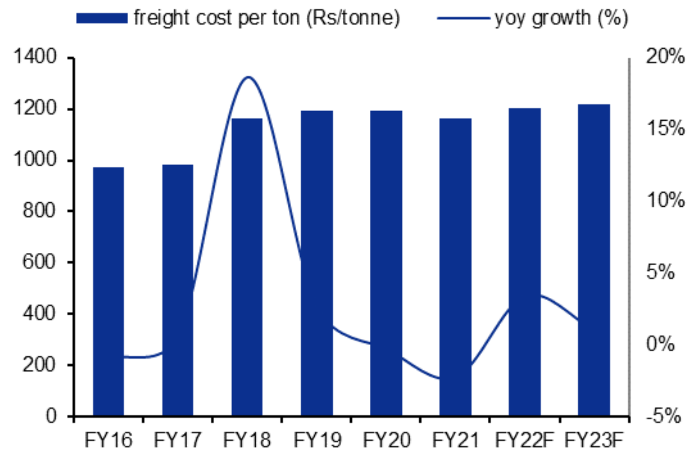
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 226: Expect cost-saving initiatives to offset higher pet-coke/coal prices



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 227: Higher diesel prices, inward logistics expenses could push up logistics costs in near term



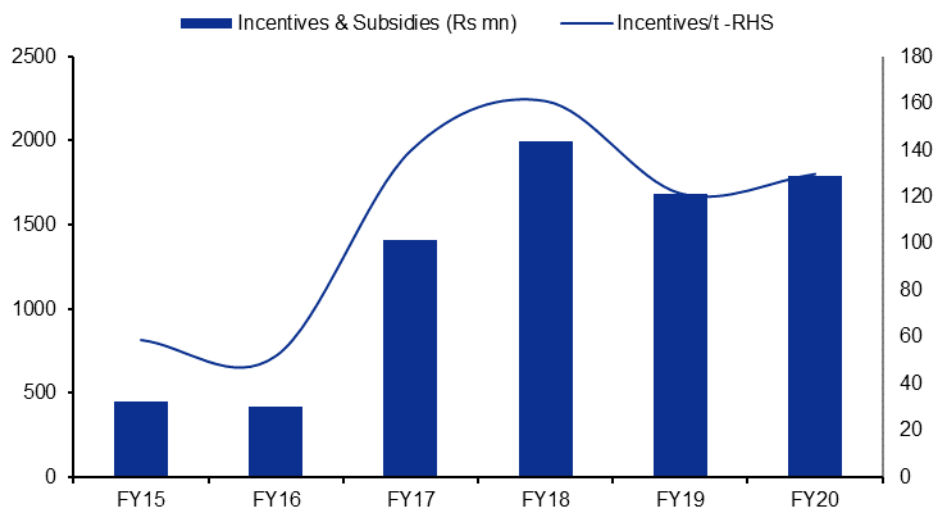
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 228: GOI, Ministry of Coal approved allocation of two coal mines to BCORP in FY20; expected to provide fuel security and cost optimisation

Name	State	Extractable Reserves (MT)	Grade	PRC (mtpa)	Final Price (Rs/t)
Bikram	Madhya Pradesh	9.44	G-8	0.36	154
Brahampuri	Madhya Pradesh	12.343	G-6	0.36	156

GOI = GOVERNMENT OF INDIA, PRC = PEAK RATED CAPACITY
SOURCES: INCRED RESEARCH, BCORP FY20 ANNUAL REPORT

Figure 229: Government incentives contributed Rs132/t to consolidated EBITDA in FY20



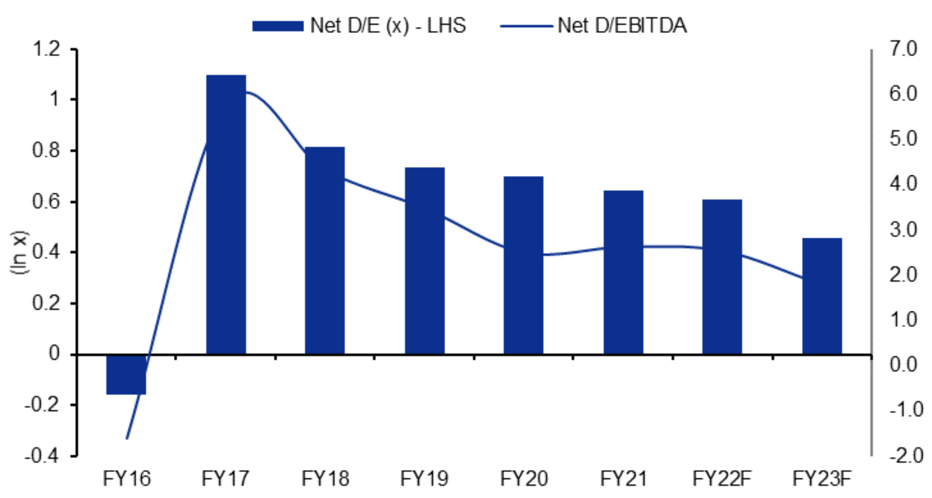
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Ongoing expansion to keep leverage elevated

Leverage to be elevated till FY22F; expect gradual deleveraging post project commissioning

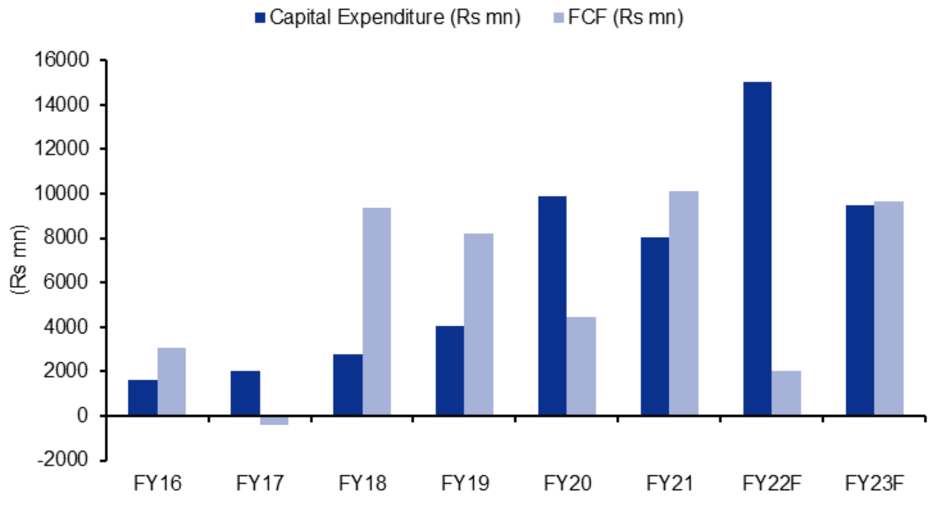
- In FY17, BCORP's consolidated gross debt increased sharply due to the acquisition of RCCPL (enterprise value: Rs48bn). Both net debt/EBITDA and debt/equity expanded considerably during the period vs. net cash status in FY16. However, the company brought down its net debt/EBITDA to 2.5x in FY20 from 5.8x in FY17 and net debt/equity to 0.7x from 1.1x as it ramped up acquired assets, streamlined costs and generated strong cash flows which were used to pay down debt.
- Due to the ongoing capex of Rs30bn to reach to 20.5mtpa capacity by FY23F, we expect BCORP's debt levels to inch up again in FY22F. Gross debt as on March 2021 reduced to Rs40.4bn vs ~Rs42.8bn in FY20. We expect leverage to peak out in FY22F post commissioning of the new capacity and gradually start trending down as expanded capacity gets ramped up and cash flow generation improves.
- BCORP is aiming for ~25mtpa capacity in two phases by FY25F. In phase-I, BCORP will expand capacity to 20.5mtpa at ~Rs30bn capex (Mukutban ~3.9mtpa and Kundanganj ~1.2mtpa). In phase-II, the company will expand capacity at Maihar and set up GUs at Bihar and in North India at Rs23bn capex. Net debt was Rs35bn as at March 2020, which we expect to peak to Rs37bn in FY22F despite higher capex aided by improving profitability.
- On the back of large capex and pandemic-related impact on operations, RoE and RoCE are likely to dip in FY22F but should gradually start improving as the ramp-up of the expanded capacity and overall demand recovery start paying out.

Figure 230: Leverage to remain high in FY22F; deleveraging to resume in FY23F



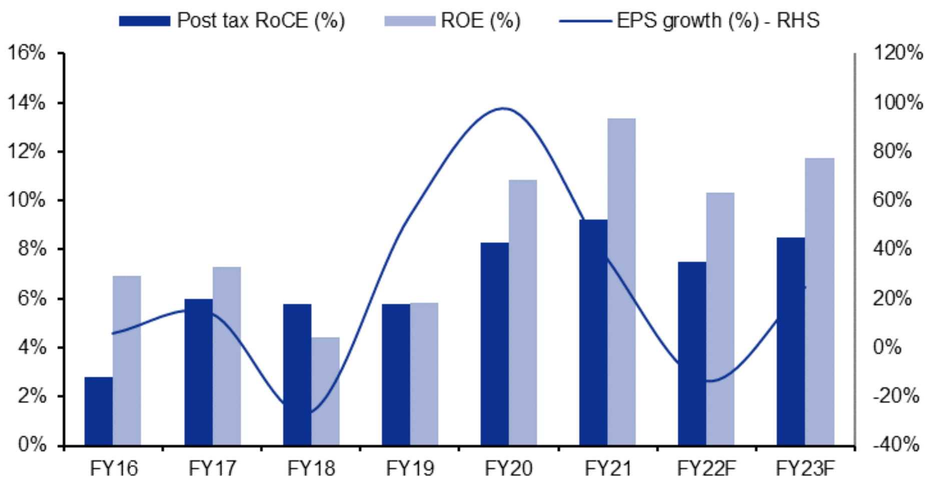
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 231: BCORP to incur remaining growth capex over FY21-FY23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 232: We expect return ratios to improve post FY22F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Initiate with Add rating, FY23F TP of Rs1,357

Valuation

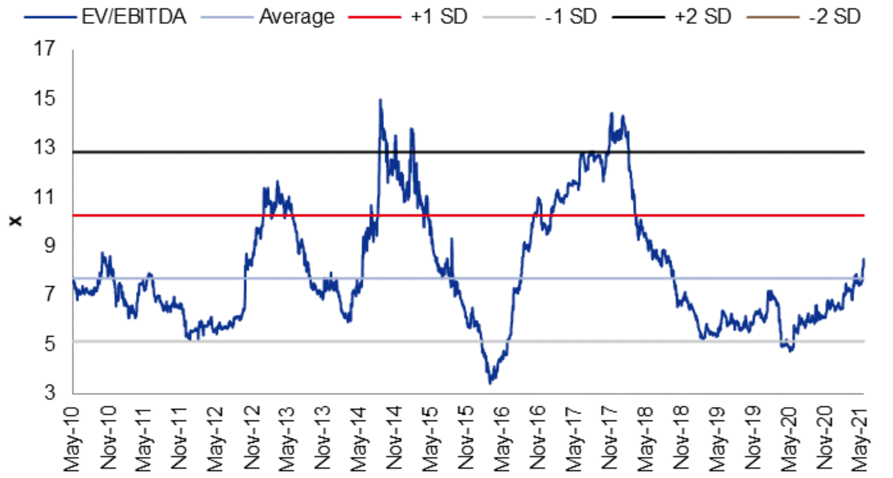
- Currently ~55% of BCORP's capacity is in Central India and ~26% in North India. Both regions have relatively favourable demand-supply scenarios which should lead to pricing stability in the near term. The company continues to focus on increasing its share of premium products in the trade channel (from 41% in FY20 to 50% in FY21). The share of blended cement rose from 89% in FY19 to 92% in FY21, helping lower RM costs. BCORP's capacities are set to touch 25mtpa by 2025.
- Stable pricing and focus on cost efficiencies should help keep EBITDA/t stable over FY21-FY23F though operating profitability might remain impacted due to pandemic-led disruption and higher cost inflation. We estimate volume/ EBITDA per tonne CAGR of 11.5%/0.7% over FY21-FY23F. With the ongoing capex, we expect leverage to peak in FY22F and decline gradually thereafter with an improvement in utilisation of expanded capacity.
- AT CMP of Rs1,202, BCORP is trading at an EV/EBITDA of 9x/7.3x for FY22F/FY23F, vs. its 10-year average of 8x and five-year average of 8.5x. We initiate coverage on the company with an Add rating and TP of Rs1,357 set at 8x FY23F EV/EBITDA – at a discount to its five-year average. BCORP is trading at a lower multiple than companies with sizeable capacities. We believe the lower multiple was due to mining issues at Chanderia, which, to a great extent, have subsided.

Figure 233: Our Rs1,357 Target price is based on 8x FY23F EV/EBITDA on consolidated basis

Valuation	TP
Target EV/EBITDA (x)	8.0
Target EV (Rs m)	1,34,796
Net debt (Rs m)	30,318
No. of shares (m)	77
Fair value per share (Rs)	**1,357**

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 234: Current valuation at historical average EV/EBITDA



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 235: BCORP trading at P/BV at c.1.2x for FY23F

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Risks

Downside risks ➤

- Any further slowdown in cement demand. Cement demand growth was badly impacted in early CY20 due to the COVID-19 pandemic. Any prolonged slowdown in general construction activities across the country might impact BCORP's volume growth.
- Any major roll back in cement prices in Central, North and East India/ further rise in input costs over the medium term to dent realisations and EBITDA/t.
- Delay in commissioning ongoing capacity expansion at Mukutban, Maharashtra, and Kundanganj, Uttar Pradesh.
- Any major interruption in government incentives and subsidies. BCORP is receiving incentives from the state government of Uttar Pradesh and Madhya Pradesh. It will also be eligible for fiscal incentives for its new capacity in Maharashtra.

Company introduction and management profile

Company background

- BCORP is the flagship company of the M.P. Birla Group. Incorporated as Birla Jute Manufacturing Company Limited in 1919, it was the late Mr. Madhav Prasad Birla who gave shape to the group. Under the Chairmanship of Mrs. Priyamvada Birla, the company's name was changed to Birla Corporation Limited in 1998. After Mrs. Priyamvada Birla's demise, the company continued to consolidate in terms of profitability, competitiveness, and growth under the leadership of Mr. Rajendra S. Lodha, the late chairman of the M.P. Birla Group. Mr. Harsh V. Lodha is now the company's chairman. The company's core businesses are cement and jute goods. In FY20, the cement segment constituted 95% of total sales.
- In FY17, the company acquired 100% shares of Reliance Cement Company Private Limited (Reliance Cement), a subsidiary of Reliance Infrastructure Limited (RIL). After this acquisition, Reliance Cement has become a wholly-owned material subsidiary of Birla Corporation Limited. RIL's entire cement business was acquired for an enterprise value of Rs48bn. With this acquisition Birla Corporation Limited owns high-quality assets, taking its total capacity from ~9.8mtpa to 15.4mtpa.
- Currently, the company has ~15.4mtpa capacity with grinding units in India's Centre (55%), North (26%), East (15%) and West (4%) regions. BCORP has 10 plants at seven locations, Satna and Maihar (Madhya Pradesh), Raebareli and Kundanganj (Uttar Pradesh), Chanderia (Rajasthan), Butibori (Maharashtra) and Durgapur (West Bengal).
- The company aims to increase its capacity to 25mtpa by 2025 post the completion of the ongoing capacity expansion i) ~3.9mtpa cement and 2.64mtpa clinker plant at Mukutban, Maharshtra, ii) 0.4mtpa clinker capacity expansion at Chanderia, Rajasthan, and iii) 1.2mtpa brownfield expansion at Kundanganj, Uttar Pradesh (currently on hold this year to conserve cash and on weak demand due to COVID-19). Post expansion to +20mtpa capacity by FY22, ~9.7mtpa will be in the Central India, 4mtpa in North, 2.3mtpa in East and 4.5mtpa in the West.
- BCORP increased its share of premium products in the trade channel from 37% in FY19 to 50% in FY21. Also, the share of blended cement increased from 89% in FY19 to 92% in FY21.
- The company manufactures varieties of cement like OPC, PPC, fly ash-based PPC, Low Alkali Portland Cement, Portland Slag Cement (PSC), Low Heat Cement and Sulphate Resistant Cement. The company has two integrated cements units, three grinding units, one blending unit, one jute mill, one steel foundry unit.
- The latest project update post COVID-19 disruption on the ongoing capacity expansion:
  i. Mukutban, Maharashtra: According to the FY20 Annual Report, ~64% of the project was completed by FY20-end at an estimated project cost of Rs24.5bn; the company incurred Rs10.85bn on the project till FY20-end and the plant is likely to be commissioned by 3QFY22.
  ii. Kundanganj, Uttar Pradesh: Brownfield expansion of the grinding project by 1.2mtpa at a capex of Rs2.5bn. Earlier the company had decided to keep this project on hold due to the COVID-19 disruption, restrict debt and conserve liquidity. However, in 2QFY21, BCORP renewed its brownfield expansion plan at Kundanganj and aims to complete it by 1QFY23.
  iii. Chanderia, Rajasthan: BCORP is expanding its Chanderia unit's kiln capacity and hopes to complete this by 1QFY22, when the capacity will be augmented by ~0.4mtpa. It estimated the project cost for this unit at Rs1.5bn. BCORP incurred Rs700m at FY20-end.
- BCORP has been consistently increasing the share of blended cement with a higher absorption of fly ash and blast furnace slag to augment the production

of environment-friendly products. The sale of blended cement forms +90% of company sales. BCORP has different premium products for its key markets: MP Birla Cement Unique for the East India markets, Super-Premium Ultimate Ultra brand for Madhya Pradesh and Samrat Advance for eastern Uttar Pradesh.

- Jute division (minuscule business): The jute industry is mainly concentrated in eastern India and plays a key role in the state economy of West Bengal. The industry is heavily dependent on government orders (~70% of the state's installed production capacity) for food grain procurement under the Jute Packaging Materials Act.
- BCORP has a presence in the jute business which contributed ~5% of sales and ~1.3% of EBIT in FY20 vs. 5% of sales and ~1.6% of EBIT in FY19. Despite eight days of lost production (4% dip in production), the jute division reported an EBITDA of Rs234m, up 16% yoy in FY20. Manufacturing operations (production shed) at Birla Jute Mills, Birlapur, West Bengal, were disrupted by the super cyclone Amphan which struck on 20 May 2020. While normal production restored post the three months of typhoon.
- RCCPL, Birla Jute Supply, and Lok Cements – all BCORP subsidiaries – have opted for the new tax regime, recognised tax expense for FY20 and re-measured deferred tax assets/liabilities at the reduced rate prescribed in the section. However, BCORP has decided to continue under the old tax regime.

Figure 236: BCORP financials segmental breakdown

Revenue (Rs m)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Cement	31,957	34,056	33,849	44,910	54,192	60,306	63,749
Jute	2,201	2,124	3,134	3,276	3,043	3,266	3,282
Others	9	10	130	107	30	34	210
Total	**34,167**	**36,191**	**37,114**	**48,293**	**57,265**	**63,605**	**67,241**
EBIT (Rs m)	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Cement	1,834	2,042	1,508	4,096	5,021	6,711	10,460
Jute	-24	-69	207	231	173	106	136
Others	-24	-15	-10	-21	-28	-32	-27
EBITDA (Rs m)	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Cement	3,069	3,440	2,861	6,538	8,222	9,976	13,858
Jute	16	9	292	310	258	192	214
Others	-7	-5	1	-11	-17	-20	-17
Segment EBITDA margins	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Cement	10%	10%	8%	15%	15%	16%	21%
Jute	1%	0%	9%	9%	8%	6%	6%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BCORP's milestones

Figure 237: Journey of BCORP from incorporation

1919	**Founding of Birla Jute Mills, Birlapur.**
1957	Founding of Satna Cement Works.
1967	Founding of Birla Cement Works. Chanderia Cement Works was set up soon after.
1974	Founding of Durgapur Cement Works, followed by Durga Hi-Tech.
1998	Founding of Raebareli Cement Works followed by Raebareli Hi-Tech Works.
2011	Chandaria mine (Rajasthan): High Court directed that no mining should take place in mining leases within 10km of Chittorgarh Fort.
2011	Company bought limestone from the market, but kiln remained shut.
2012	The Rajasthan HC passed a judgement that no mining activities and blasting should take place within 10km from Chittorgarh fort wall. The mining leases granted within 10km from the fort wall were cancelled.
2013	SC passed an interim order allowing mining operations beyond 2km from the Chittorgarh fort by using Heavy Earth Moving Machinery.
2014	The report of Central Building Research Institute (CBRI) concluded that vibrations and air pressure induced by the mines of Birla Cement Works and adjoining mines were well within safe limits as per national and international standards.
2016	The acquisition of Reliance Cement Company Private Ltd (RCCPL), from Reliance Infrastructure Ltd, with capacities in Maihar, Kundanganj and Butibori, established BCL across 12 states with an installed capacity of ~15.4mtpa.
2016	Launch of MP Birla Cement brand identity, and new MP Birla Group logo.
2019	National Green Tribunal (NGT) ordered the stopping of all mining activities within Chittorgarh city and 10km of Bassi Wildlife Sanctuary or within the eco-sensitive zone of Bassi Wildlife Sanctuary.
2019	The company took steps to ensure no mining activity occurred in the area falling within the restrictions prescribed in the NGT's order. The company did not anticipate any material impact of the said order on its current operations as it had sufficient reserves in areas outside the limits covered by the order. The matter is pending for hearing.
2019	The company announced capacity expansion of 3.9mtpa cement and 2.64mtpa clinker plant at Mukutban, Maharashtra (ii) 0.4mtpa clinker capacity expansion at Chanderia, Rajasthan and (iii) 1.2mtpa brownfield expansion at Kundanganj, Uttar Pradesh.
2020	Kundanganj brownfield expansion of ~1.2mtpa put on hold to conserve cash and on weak demand due to COVID-19.
2020	The company decided to raise Rs3bn via secured/unsecured NCDs (subject to shareholder's approval) as well as premature redemption or buyback of the existing NCDs.
2021	The company renewed its brownfield expansion plan at Kundanganj and aims to complete it by 1QFY23 (1.2mtpa for Rs2.5bn).

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BCORP's product portfolio

- BCORP has been consistently increasing the share of blended cement with higher absorption of fly ash and blast furnace slag to augment production of environment friendly products. The sale of blended cement formed 93% of FY20 sales.
- The company's strategy of increasing volumes in the high contribution core markets and moving up the value chain by increasing the proportion of cement sales in the trade segment, premium grade cement and blended cement have contributed to the growth in profitability and helped mitigate cost pressures.
- To enhance the sale of the premium segment, the company has introduced several brands under this category in its respective market. The various premium brands launched by the company are MP Birla cement Unique, Ultimate Ultra and Samrat Advanced.

Figure 238: MP Birla Cement – Perfect Plus

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 239: MP Birla Cement – Ultimate Ultra

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 240: MP Birla Cement – Samrat

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 241: MP Birla Cement – Chetak

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 242: Premium brand of PSC

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 243: Perfect Plus – Wall Putty

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 244: MP Birla – Jute products

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key management profile

- Recently, BCORP announced changes in key management. Birla Corp's board of directors approved the appointment of Mr. Arvind Pathak as MD and CEO for three years with effect from 31 March 2021, subject to the approval of shareholders at the next general meeting of the company.
- Pracheta Majumdar (Wholetime Director and Chief Executive Officer) was redesignated Wholetime Director and Chief Management Advisor w.e.f. 31 March 2021.

Mr. Arvind Pathak, MD & CEO, has 36 years of experience in the cement industry having held the CEO or equivalent positions for over 14 years in various large organisations, including ACC, DCP, Adani and Reliance ADAG Group. He holds an Electrical Engineering degree from IIT (BHU) and PG degree in Industrial Engineering and Management.

Mr. Harsh V. Lodha, Chairman & Non-Executive Director, is a chartered accountant and a member of the Managing Committee of Assocham and Executive Committee member of the Indian Chamber of Commerce where he has served as Vice President. He has served as a member of the Accounting Standards Board of the Institute of Chartered Accountants of India and Member of the Working Group on Corporate Governance, set up by the Department of Company Affairs, Government of India.

Mr. Pracheta Majumdar, Wholetime Director and Chief Management Advisor, is a former managing director of CEAT Tyres Ltd. Mr. Majumdar is a mechanical engineer and has worked with Hindustan Unilever for about 12 years.

Mr. Asim Chattopadhyay, Executive President (Operation), is a mechanical engineer, with postgraduate from IIT, Kanpur. He started his career in 1975 with ACC Ltd and joined the Lafarge Group in 1998. He was Operations Director of Lafarge Surma, Bangladesh, till May 2015.

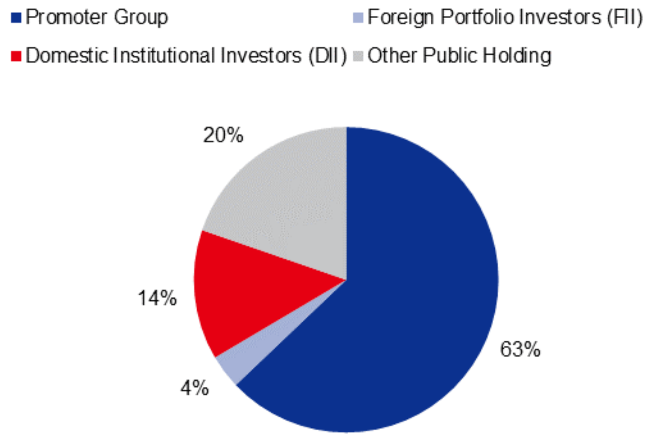
Mr. Aditya Saraogi, Chief Financial Officer, is a chartered accountant and Certified Information Systems Auditor (CISA). Prior to joining BCL, he was with the Indian associate firms of Ernst & Young and BDO. He served several large companies, including ITC, Bharti Airtel, Lafarge India, Peerless, iGate and Reliance Communications.

Figure 245: BCORP's key management

Name	Designation
Mr. Arvind Pathak	MD &CFO
Mr. Harsh V. Lodha	Chairman & Non-Executive Director
Mr. Pracheta Majumdar	Wholetime Director and CMA
Mr. Aditya Saraogi	CFO
Mr. Dev Banerjee	President, Sales & Logistics
Mr. Asim Chattopadhyay	Executive President (Operation)
Mr. Bhaskar Bhattacharya	President – Satna, Raebareli, Vindhyachal
Mr. Uttam Kr Roy	President – Maihar
Mr. Rajesh Kakkar	President – Chanderia
Mr. GR Verma	President – Birla Jute Mills

SOURCES: INCRED RESEARCH, COMPANY REPORTS

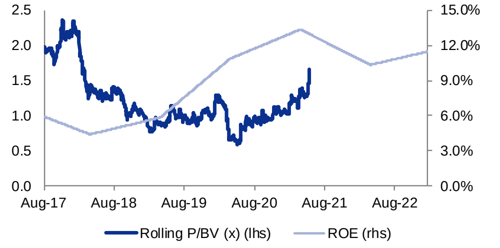
Figure 246: Shareholding pattern (as at Mar 2021)



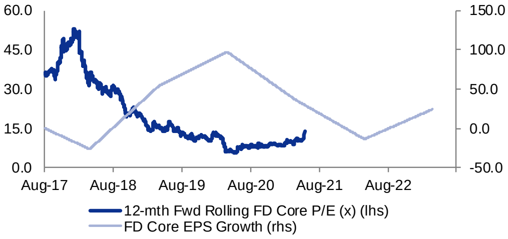
SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Total Net Revenues	**65,487**	**69,157**	**67,855**	**76,063**	**88,117**
Gross Profit	**65,487**	**69,157**	**67,855**	**76,063**	**88,117**
Operating EBITDA	**9,486**	**13,360**	**13,376**	**14,299**	**16,849**
Depreciation And Amortisation	(3,391)	(3,519)	(3,708)	(4,153)	(4,900)
Operating EBIT	**6,095**	**9,841**	**9,668**	**10,147**	**11,950**
Financial Income/(Expense)	(3,705)	(3,877)	(2,963)	(3,141)	(2,984)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	785	851	999	1,014	1,029
Profit Before Tax (pre-EI)	**3,174**	**6,815**	**7,704**	**8,020**	**9,995**
Exceptional Items					
Pre-tax Profit	**3,174**	**6,815**	**7,704**	**8,020**	**9,995**
Taxation	(617)	(1,763)	(825)	(2,085)	(2,599)
Exceptional Income - post-tax					
Profit After Tax	**2,557**	**5,052**	**6,880**	**5,935**	**7,397**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**2,557**	**5,052**	**6,880**	**5,935**	**7,397**
Recurring Net Profit	2,557	5,052	6,880	5,935	7,397
Fully Diluted Recurring Net Profit	**2,557**	**5,052**	**6,880**	**5,935**	**7,397**

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
EBITDA	9,486	13,360	13,376	14,299	16,849
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,236)	(1,311)	2,874	(2,262)	(183)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	785	851	999	1,014	1,029
Other Operating Cashflow	5,930	6,152	(178)	(178)	(178)
Net Interest (Paid)/Received	(3,705)	(3,877)	(2,963)	(3,141)	(2,984)
Tax Paid	(617)	(1,763)	(825)	(2,085)	(2,599)
Cashflow From Operations	**10,641**	**13,412**	**13,284**	**7,649**	**11,936**
Capex	(4,030)	(9,860)	(8,028)	(15,000)	(9,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,404)	(1,980)	2,213	7,048	5,000
Cash Flow From Investing	**(5,434)**	**(11,840)**	**(5,815)**	**(7,952)**	**(4,500)**
Debt Raised/(repaid)	(1,297)	1,877	(2,227)	2,500	(5,900)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(501)		(770)	(725)	(904)
Preferred Dividends					
Other Financing Cashflow	(4,218)	(3,888)	(4,022)	(175)	(412)
Cash Flow From Financing	**(6,016)**	**(2,012)**	**(7,019)**	**1,600**	**(7,216)**
Total Cash Generated	(809)	(439)	451	1,297	220
Free Cashflow To Equity	**3,910**	**3,449**	**5,242**	**2,197**	**1,536**
Free Cashflow To Firm	**8,913**	**5,449**	**10,432**	**2,837**	**10,420**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Total Cash And Equivalents	7,393	9,320	6,407	7,704	7,924
Total Debtors	2,622	2,504	2,795	2,918	3,138
Inventories	7,830	7,876	8,101	9,169	10,381
Total Other Current Assets	7,200	7,240	9,378	9,888	11,015
Total Current Assets	**25,045**	**26,939**	**26,681**	**29,679**	**32,458**
Fixed Assets	72,641	73,254	73,235	83,082	87,182
Total Investments	2,766	1,602	2,891	2,891	2,891
Intangible Assets	9,141	16,039	21,048	14,000	9,000
Total Other Non-Current Assets	3,723	3,921	5,101	6,101	6,601
Total Non-current Assets	**88,271**	**94,815**	**1,02,275**	**1,06,074**	**1,05,674**
Short-term Debt	4,260	6,130	5,598	6,598	5,698
Current Portion of Long-Term Debt					
Total Creditors	6,273	5,228	5,890	5,723	6,774
Other Current Liabilities	7,319	9,643	8,760	8,367	9,693
Total Current Liabilities	**17,852**	**21,001**	**20,248**	**20,688**	**22,164**
Total Long-term Debt	36,232	36,690	36,044	37,544	32,544
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	14,280	16,003	17,804	17,604	17,204
Total Non-current Liabilities	**50,512**	**52,692**	**53,848**	**55,148**	**49,748**
Total Provisions					
Total Liabilities	**68,364**	**73,693**	**74,096**	**75,836**	**71,912**
Shareholders Equity	44,952	48,061	54,860	59,917	66,220
Minority Interests					
Total Equity	**44,953**	**48,062**	**54,860**	**59,918**	**66,220**

Key Ratios

	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Revenue Growth	14.3%	5.6%	(1.9%)	12.1%	15.8%
Operating EBITDA Growth	17.4%	40.8%	0.1%	6.9%	17.8%
Operating EBITDA Margin	14.5%	19.3%	19.7%	18.8%	19.1%
Net Cash Per Share (Rs)	(429.82)	(435.03)	(457.56)	(473.18)	(393.71)
BVPS (Rs)	583.75	624.13	712.42	778.09	859.94
Gross Interest Cover	1.64	2.54	3.26	3.23	4.01
Effective Tax Rate	19.5%	25.9%	10.7%	26.0%	26.0%
Net Dividend Payout Ratio	27.2%	13.8%	13.5%	14.8%	14.8%
Accounts Receivables Days	12.64	13.53	14.25	13.71	12.54
Inventory Days	40.97	41.45	42.97	41.44	40.49
Accounts Payables Days	37.10	37.62	37.24	34.32	32.00
ROIC (%)	6.8%	10.3%	9.2%	9.1%	10.8%
ROCE (%)	7.2%	11.2%	10.3%	10.1%	11.5%
Return On Average Assets	5.6%	7.6%	7.9%	6.9%	7.6%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Company Note

Cement | India | May 20, 2021

INITIATION

Heidelberg Cement India Ltd.

Well placed; operating metrics evolving

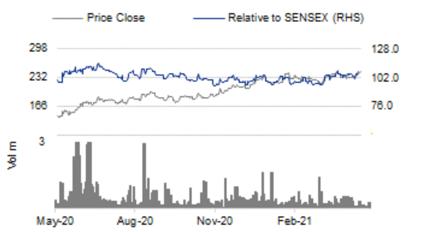
- HEIM, a subsidiary of Germany's HeidelbergCement Group, is a leading Central India-based cement company with a current capacity of ~6.3mtpa.
- Recent debottlenecking expansion offers near-term volume growth visibility, though major concerns still centre on long-term growth.
- We forecast volume/realisations/EBITDA/t CAGR of 6%/2%/1%, respectively, over FY20-FY23F. We initiate coverage with Add and Rs268 TP.

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 16 Hold 3 Sell 1
Current price:	Rs240
Target price:	Rs268
Previous target:	NA
Up/downside:	11.7%
InCred Research / Consensus:	1.9%
Reuters:	HEIG.DE
Bloomberg:	HEIM IN
Market cap:	US$745m Rs54,387m
Average daily turnover:	US$1.2m Rs84.8m
Current shares o/s:	226.6m
Free float:	37.5%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.2	4.1	63.6
Relative (%)	(2.4)	5.5	(1.6)

Major shareholders	% held
Promoter & Promoter Group	69.4
First State Indian Subcontinent Fund	1.7
Axis Mutual Fund	1.6

Timely debottlenecking to drive near-term volume growth

HEIM saw only ~2% volume CAGR over FY16-FY20 due to capacity constraints. But in Mar 2020, it completed debottlenecking of its Imlai (Madhya Pradesh) and Jhansi (Uttar Pradesh) plants, adding ~1mtpa of additional capacity. We believe with COVID-19-led demand disruption, the capacity addition has come at an opportune time and should allay growth concerns till FY23F. We expect favourable demand supply balance in the central region, and strong demand (on strong housing demand and multiple infrastructure projects in the region) will continue to ensure high utilisation rates. Therefore, we build in ~6% volume CAGR over FY20-FY23F, largely in line with the central region's growth rate during the same period.

Improving realisations to support EBITDA/t

HEIM's core market of Central India should see stable pricing amid favourable operating matrix (strong focus on brand positioning, higher trade sales, efficient discount structure and an improving share of premium products). We build in 2% realisation CAGR over FY20-FY23F (8% CAGR over FY16-FY20). The company's cost/t rose ~3% CAGR over FY16-FY20, led by control in power and fuel (P&F) costs and other cost-saving measures. We believe HEIM has limited room to lower costs further, though some savings might flow in from the increase in captive power consumption. However, a recent surge in input costs might offset those savings. Therefore, only price sustainability can drive the EBITDA/t, in our view. We factor in a 1% EBITDA/t CAGR over FY20-FY23F.

Strong balance sheet; superior return ratios – a key positive

HEIM had a net cash balance of Rs2.2bn as at Dec 2020. ROCE was 17% and ROE 22% for FY20, the best among comparable peers led by lower capex, high utilisation and decent operating profitability. We believe stable cash flow generation and low leverage should help the company tide over these tough times (due to a pandemic-affected economy), while return ratios should improve gradually with demand recovery.

Initiate with Add as valuations remain comfortable

We initiate coverage with an Add rating and TP of Rs268 set at 8.5x FY23F EV/EBITDA, in line with its five-year average of ~8.5x. The key downside risks are below industry growth and pricing pressure in the core market due to increased competitive intensity.

Analyst(s)

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Financial Summary	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue (Rsm)	21,334	21,696	21,474	24,751	27,491
Operating EBITDA (Rsm)	4,833	5,278	5,034	5,792	6,533
Net Profit (Rsm)	2,207	2,681	2,586	3,254	3,836
Core EPS (Rs)	9.7	11.8	11.4	14.4	16.9
Core EPS Growth	65.7%	21.5%	(3.5%)	25.8%	17.9%
FD Core P/E (x)	24.65	20.29	21.03	16.71	14.18
DPS (Rs)	4.2	5.4	4.6	5.7	6.8
Dividend Yield	1.76%	2.26%	1.90%	2.39%	2.82%
EV/EBITDA (x)	11.62	10.18	10.23	8.47	7.18
P/FCFE (x)	19.15	17.02	26.77	20.03	12.86
Net Gearing	15.3%	(5.0%)	(19.7%)	(31.9%)	(39.6%)
P/BV (x)	4.64	4.14	3.70	3.27	2.87
ROE	19.9%	21.6%	18.6%	20.8%	21.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.00	1.00	1.01

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 18 MAY 2021

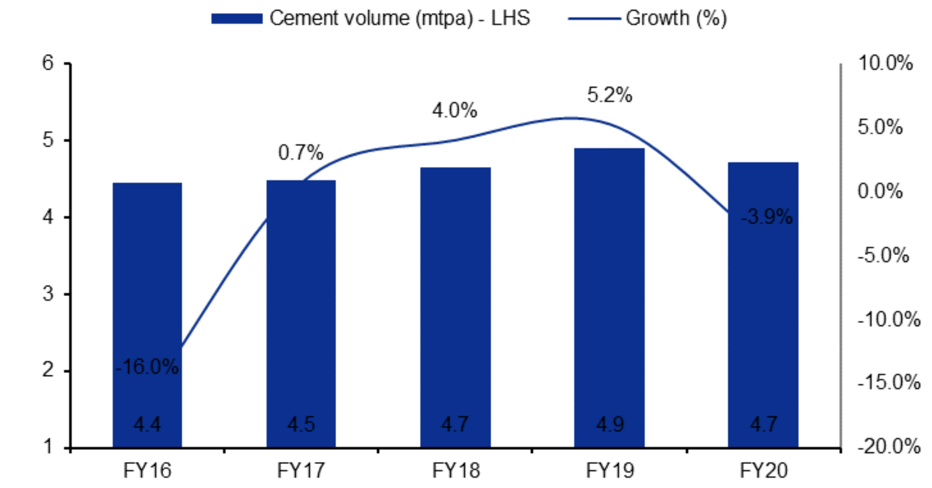
Well placed; operating metrics evolving

Geographically well placed; recent debottlenecking to offer near-term volume growth

Debottlenecking addresses capacity constraints

- During FY16-FY20, HEIM posted ~2% volume CAGR (vs. Central India CAGR of 3.5% over the same period) as capacity constraints restricted the company's volume growth. HEIM's capacity utilisation stood at 87% in FY20 vs 91% in FY19.

Figure 247: Cement volume growth subdued over FY16-FY20 due to lack of capacity addition



SOURCES: INCRED RESEARCH, COMPANY REPORTS

- HEIM had undertaken debottlenecking at its plants at Damoh (0.5mtpa), Madhya Pradesh, and Jhansi (0.55mtpa), Uttar Pradesh, leading to cement capacity addition of ~1mtpa (completed in Mar 2020) and enhancing HEIM's aggregate cement grinding capacity to ~6.4mtpa. This debottlenecking cost Rs200m for both locations combined. To support its expansion, HEIM is also planning a clinker debottlenecking unit at the Narsingarh plant, which will increase clinker capacity from 3.5mtpa to 3.8m-3.9mtpa.

Figure 248: HEIM's overall cement and clinker capacity (as at Mar 2021)

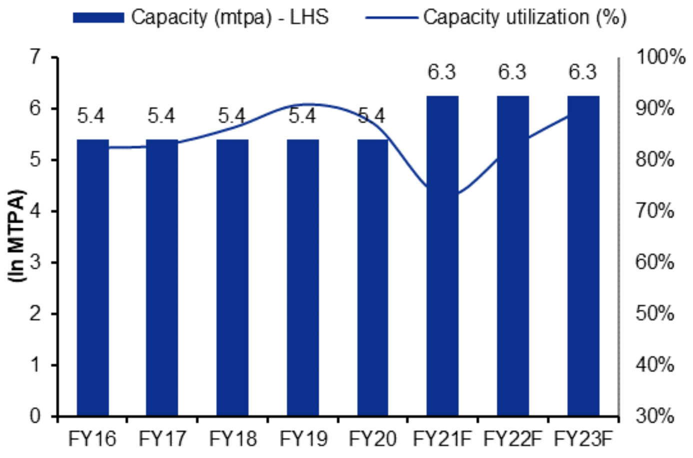
Capacity (mt)	State	Region	Clinker	Cement
Damoh (Integrated Unit)	Madhya Pradesh	Central	3.5	2.5
Jhansi (Grinding Unit)	Uttar Pradesh	Central	0	3.3
Ammasandra (Integrated Unit)	Karnataka	South	0.3*	0.5
Total capacity			**3.8**	**6.3**

*NON-OPERATIONAL SINCE 2017
SOURCES: INCRED RESEARCH, COMPANY REPORTS

- HEIM might go for organic or inorganic growth opportunities as its balance sheet is strong and we expect its core market to see better operating dynamics. HEIM has plans for ~3mtpa greenfield expansion in Amreli, Gujarat. The company has obtained conditional approval for a 30-year mining lease from the state government. The environmental clearance and land acquisition may take a couple of years before HEIM can proceed with the greenfield expansion. It is unlikely to order equipment for the same before FY22F-end, and we do not expect the project to be operational before FY24F. However, we have not built in any positive momentum related to this and will revisit our numbers once the actual announcement is made.

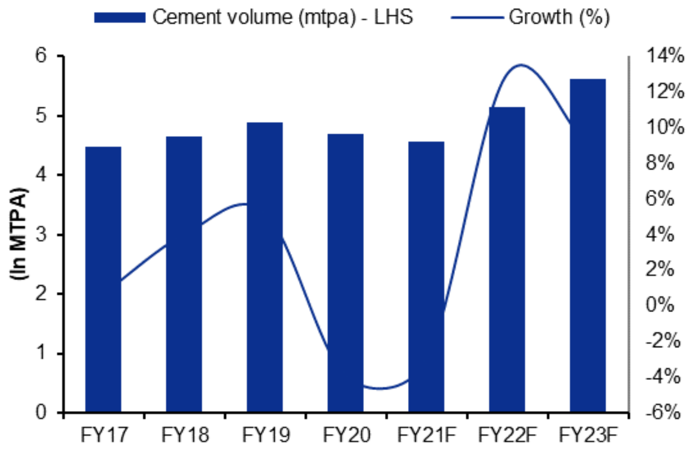
- We believe debottlenecking will address volume growth concerns till FY23F. We expect ~3% yoy volume decline in FY21F, which should then see a gradual recovery over the next two years. Therefore, we build in ~6% volume CAGR over FY20-FY23F. However, HEIM's 9MFY21 volume decline (10.1% yoy) was higher than the industry's (~6% decline for top 15 listed players as per our analysis).

Figure 249: HEIM's capacity constraints to continue; utilisation level to increase further



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 250: Recent debottlenecking safeguards near-term volume growth for HEIM

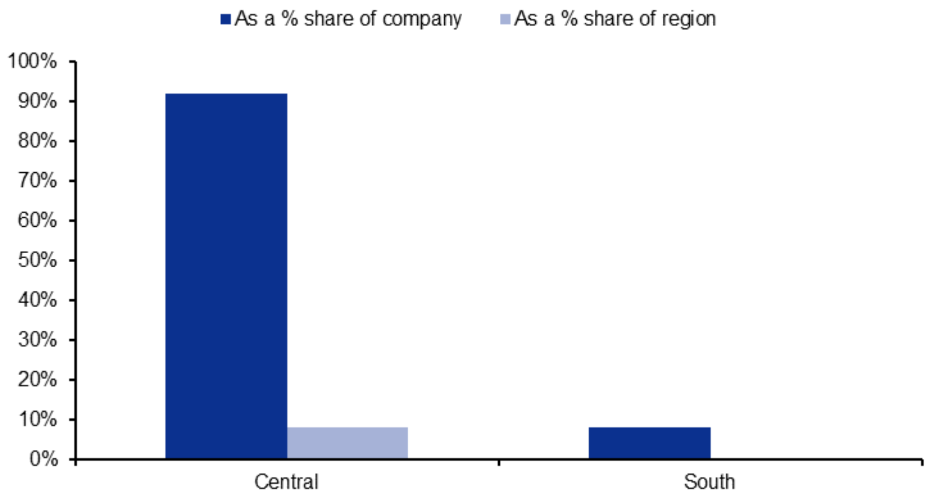


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

High exposure to favourable Central India market ➤

- The central region of India has a total capacity of ~72mtpa with a healthy utilisation rate of ~79% in FY20. This region grew at a 4% volume CAGR over FY16-FY20. In addition to pan-India players like UltraTech and ACC, the market has medium-sized players like Birla Corp, Prism Cement and HEIM.
- HEIM's operations are largely in Central India at Damoh in Madhya Pradesh (~2.5mtpa; post debottlenecking of 0.4mtpa in Mar 2020), Jhansi in Uttar Pradesh (3.3mtpa; post debottlenecking of 0.55mtpa in Mar 2020), and a clinker unit of 0.5mtpa at Ammasandra in Karnataka that has been non-functional since FY17 as it is an old plant. The company has tied up with Zuari Cement (associated subsidiary) to supply clinker to produce cement.
- The company currently sells 80-85% of its cement in the central region of India and the balance in the southern and eastern regions. HEIM's share of trade sales in overall volumes stands at ~85%, one of the highest among large-/mid-cap peers. Also, its share improved from 80% in FY18 to 85% in FY20 (in 3QFY21, the trade share stood at 80%). HEIM targets trade sales of 85-90% going forward.

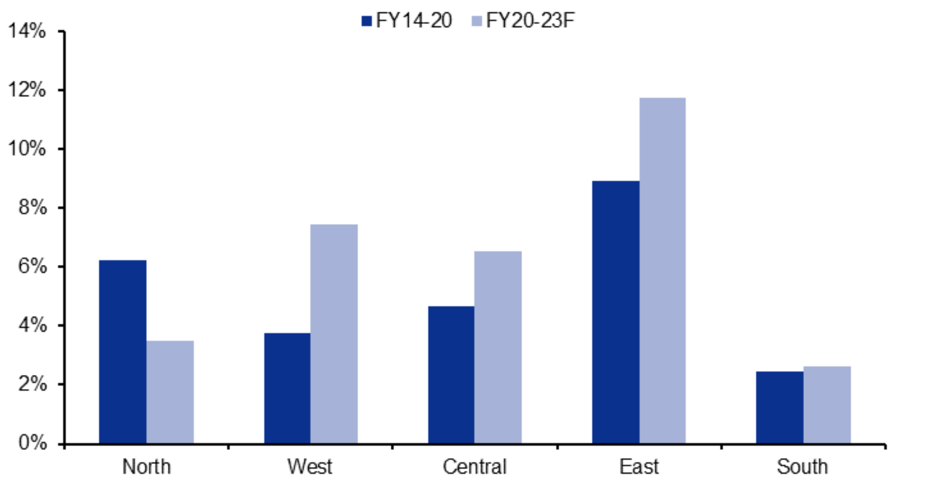
Figure 251: Currently, HEIM has a strong presence in Central India, and a limited capacity share in South India



SOURCES: INCRED RESEARCH, COMPANY REPORTS

- Since the last five to six years, Central India has seen a favourable demand-supply scenario which has helped maintain pricing discipline in the region. We expect the region to see limited capacity addition and demand should move in tandem with expected supply. Consequently, we expect continued pricing stability in the foreseeable future.
- Demand momentum in the region should be driven by various state/centrally planned infrastructure projects, strong housing demand and uptick from agri-led rural and semi-urban demand growth. This should lead to faster recovery in demand vs. most other regions over the next two years.

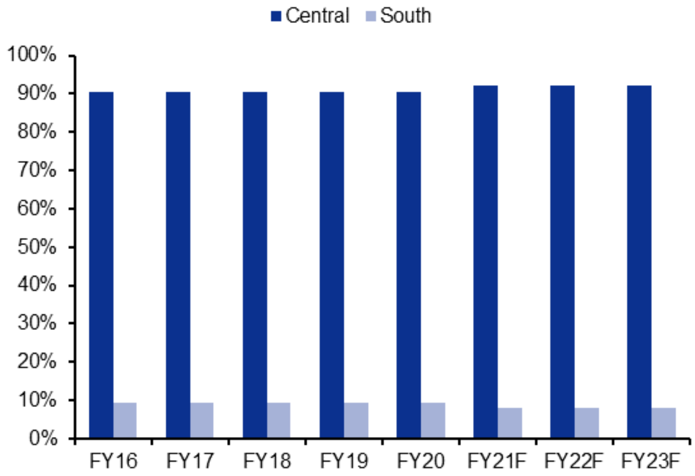
Figure 252: Central and North India to see lower capacity addition (capacity CAGR), leading to favourable demand-supply scenario



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

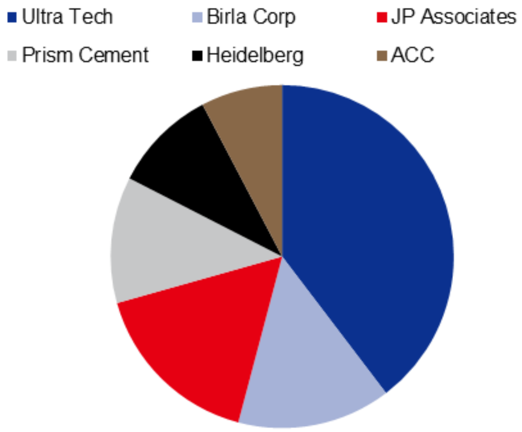
- HEIM is well placed to benefit from its presence in the Central region, where it has 92% of its total capacities. The company currently enjoys a market share of ~8-9% (in terms of capacity) in Central India. While there were concerns of capacity constraints for HEIM, recent debottlenecking of capacity (completed in Mar 2020) from 4.8mtpa to 5.75mtpa in Central India should aid volume growth in the near term. To support its expansion, HEIM is planning to debottleneck the Narsingarh plant, which will increase its clinker capacity.

Figure 253: HEIM's region-wise capacity split – highly focussed on Central India



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 254: Currently, HEIM is a Top-5 player in cement capacity in Central India



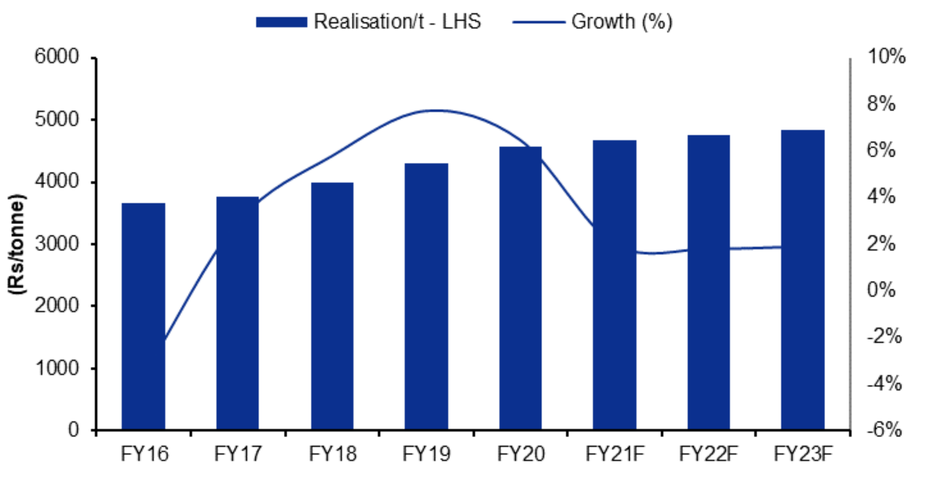
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Improving realisations; higher input prices to offset cost optimisation

Strong brand positioning, higher trade sales and improving share of premium products to improve realisations ➤

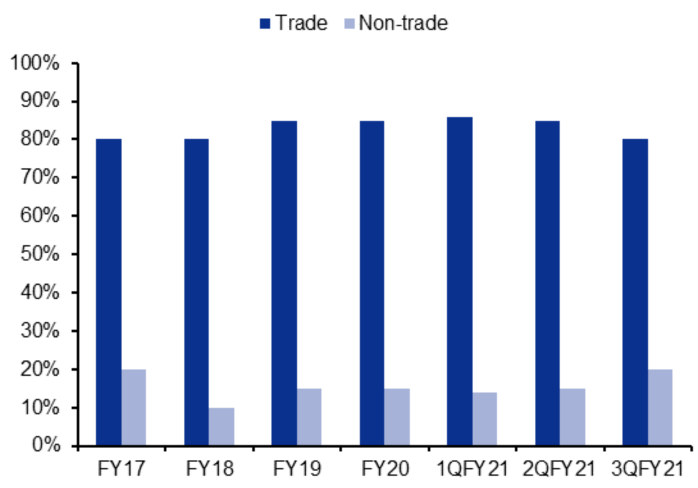
- HEIM has always focussed on central markets due to its historically stronger presence in this region. Since Central India has enjoyed better utilisation rates than the national average, the region has seen the lowest volatility in prices recently.
- Realisations were the saving grace for HEIM in FY20, growing ~7% yoy due to (a) strong pricing aided by a rising trade mix (FY20, ~85% of mix) and (b) high premium segment contribution (~11% of trade). Going forward, we believe pricing volatility in the Central India market should remain low due to better demand-supply dynamics. Therefore, we factor in ~2% realisation/t CAGR over FY20-FY23F.

Figure 255: Realisations to remain healthy over FY21F-23F



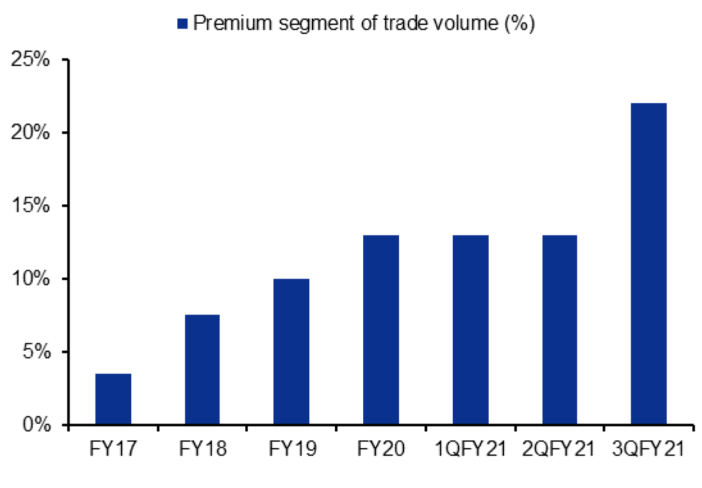
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 256: Trade sales mix (%)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 257: HEIM launched another premium brand Greencem; HEIM's share of premium products is increasing substantially

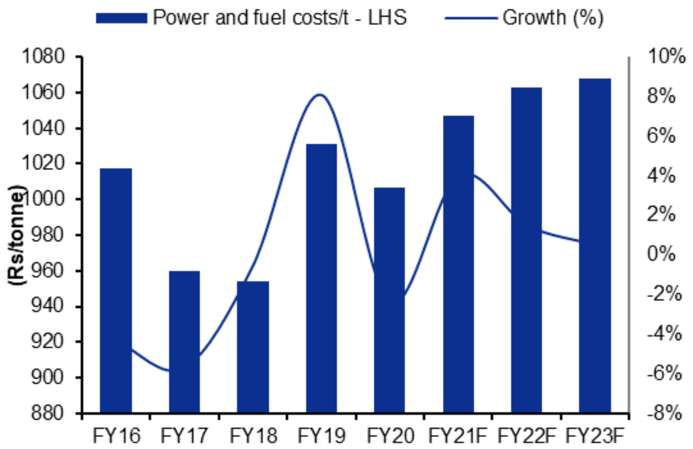


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Cost optimisation to be limited

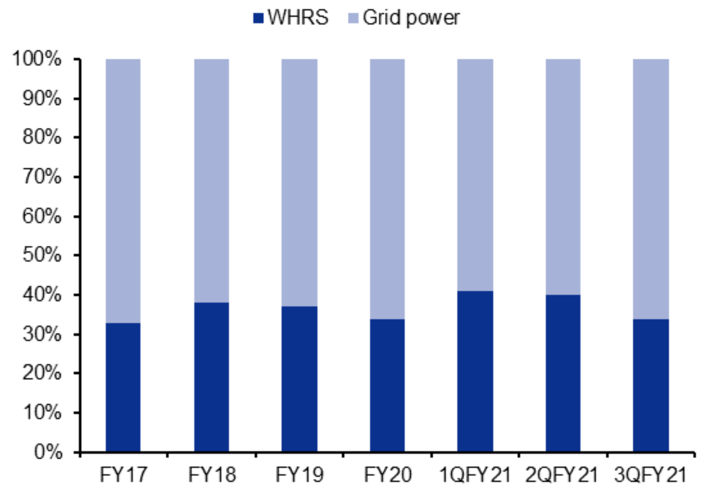
- Over the last four to five years, HEIM has controlled its costs, particularly P&F costs (-0.4% CAGR over FY16-FY20) – the largest cost component, through cost-saving initiatives. To reduce its carbon footprint, the company installed a ~21km-long conveyor belt to transport limestone from Patharia mines to its Narsingarh clinkerisation plant which has led to savings in transportation costs. Due to this, its cost/t grew at 3% CAGR over the same period. Better realisations and cost controls led to a 29% EBITDA/t CAGR over FY16-FY20.
- We believe the company has limited room for further cost optimisation in its operations. HEIM's dependence on grid power increased to ~66% in FY20 from 63% in FY19. It signed a long-term power purchase agreement (PPA) to source 5MW solar power from third-party installations at Patharia under the build-own-operate (BOO) system in FY20 and entered into a 25-year solar power purchase agreement in FY19 for its Ammasandra unit to meet 70% of the unit's energy requirements. The lack of captive power is a constraint and we believe there is scope for improvement on this parameter.
- HEIM consumes a prudent mix of coal and pet coke, depending on which fuel is cheaper at a certain point of time leading to optimal fuel costs. HEIM's pet coke to coal ratio stood at 61%:39% in FY20 and in 3QFY21 it was 50%:50%. Going ahead, HEIM has undertaken an alternative fuel (AFR) project at Damoh plant with a target reach of ~6% AFR/ thermal substitution rate (TSR) which should help lower fuel costs.

Figure 258: P&F costs/t to increase due to higher input costs



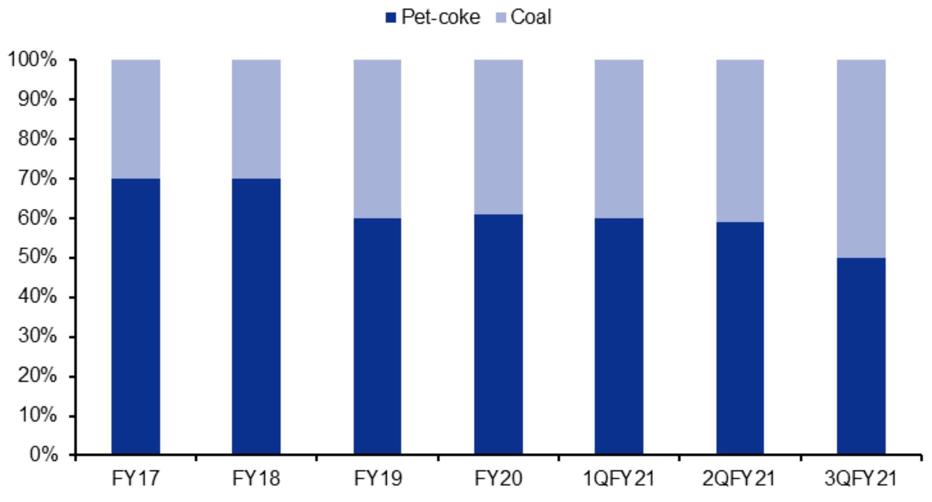
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 259: Share of power source mix (%)



WHRS = WASTE HEAT RECOVERY SYSTEMS
SOURCES: INCRED RESEARCH, COMPANY REPORTS

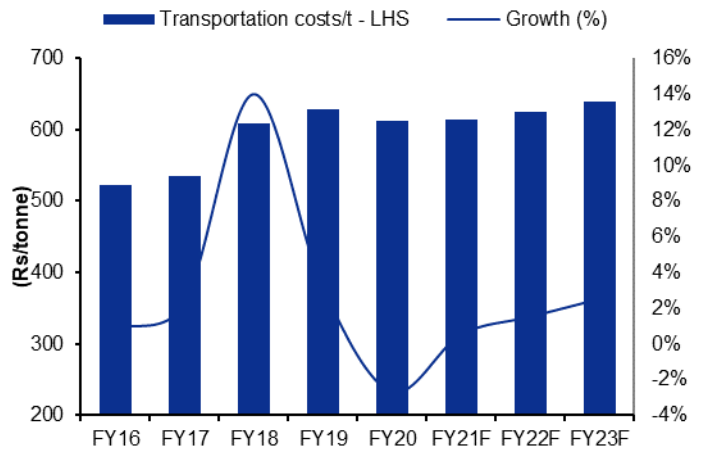
Figure 260: Share of fuel mix



SOURCES: INCRED RESEARCH, COMPANY REPORTS

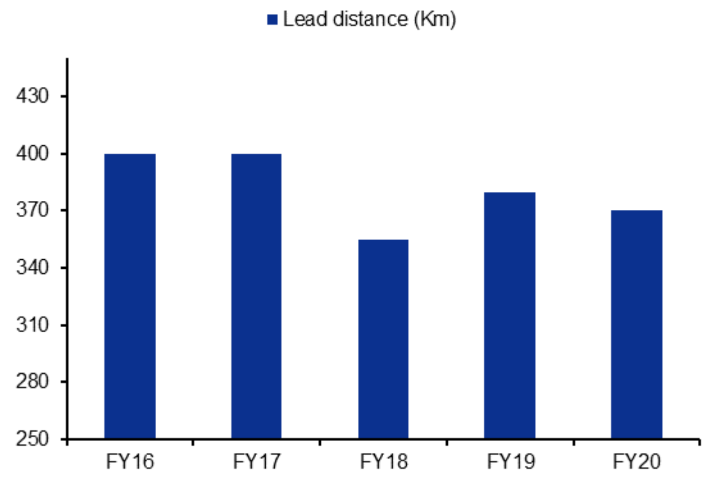
- A major portion of materials moves via railways, which is cheaper than road freight. The rail-road mix stood at 54%:46% in FY20 compared to 52%:48% in FY19, while its average lead distance is 375-380km. We believe HEIM will face some near-term constraints due to non-availability of truck drivers, labour shortages at railway yards and delayed clearance of railway wagons. However, its current dispatches are being adequately met by trucks available in the market.

Figure 261: Logistics cost/t to rise due to higher diesel prices



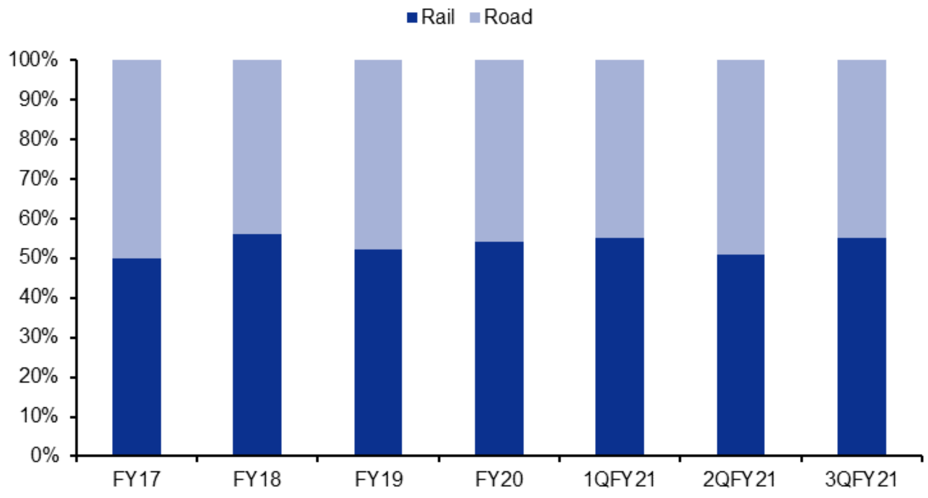
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 262: HEIM's lead distance is lower than its peers



SOURCES: INCRED RESEARCH, COMPANY REPORTS

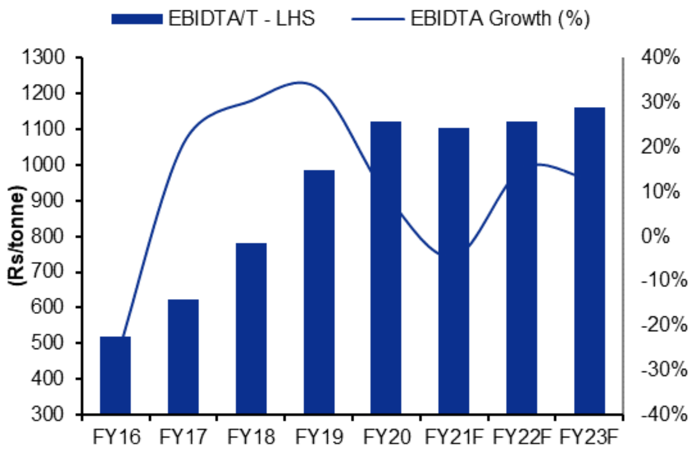
Figure 263: Share of freight mix (%)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

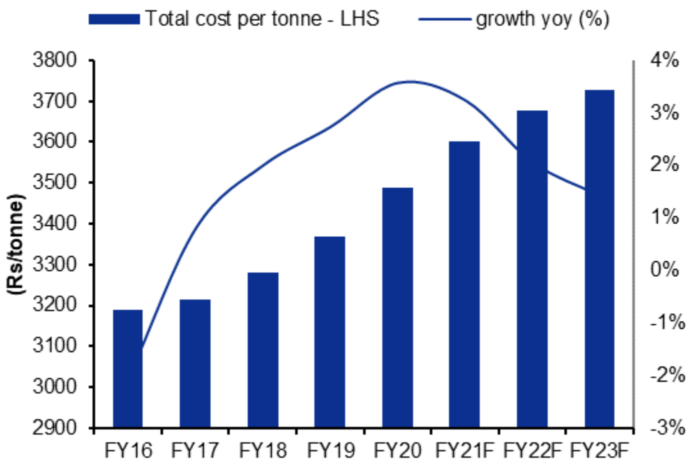
- Therefore, we believe further optimisation of costs looks limited, barring savings from reduced dependence on grid power. We factor in 1% EBITDA/t CAGR over FY20-FY23F on the back of stable realisations.

Figure 264: HEIM's EBITDA/t almost doubled from FY16 levels, and should remain stable going forward



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 265: Total operating costs/t to remain under control over FY21F-23F



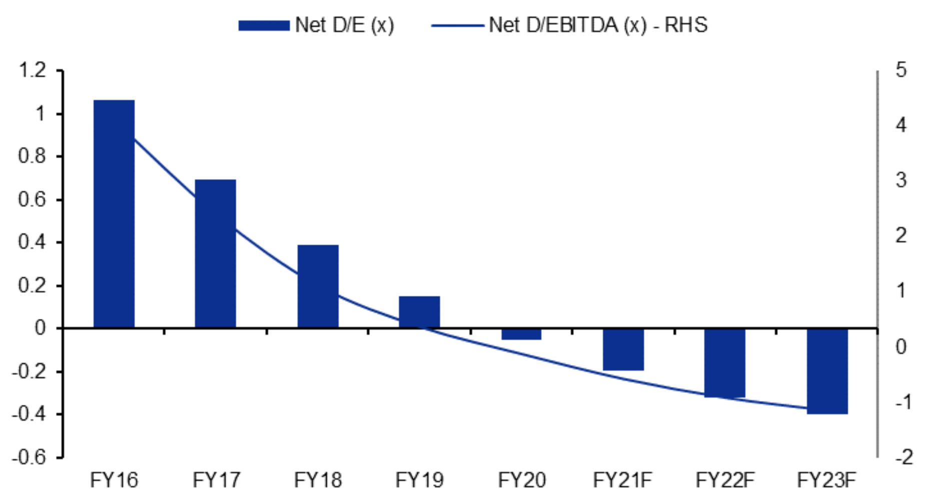
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Balance sheet comfort to remain; healthy return ratios vs peers

Negative working capital, superior RoCEs – a key positive

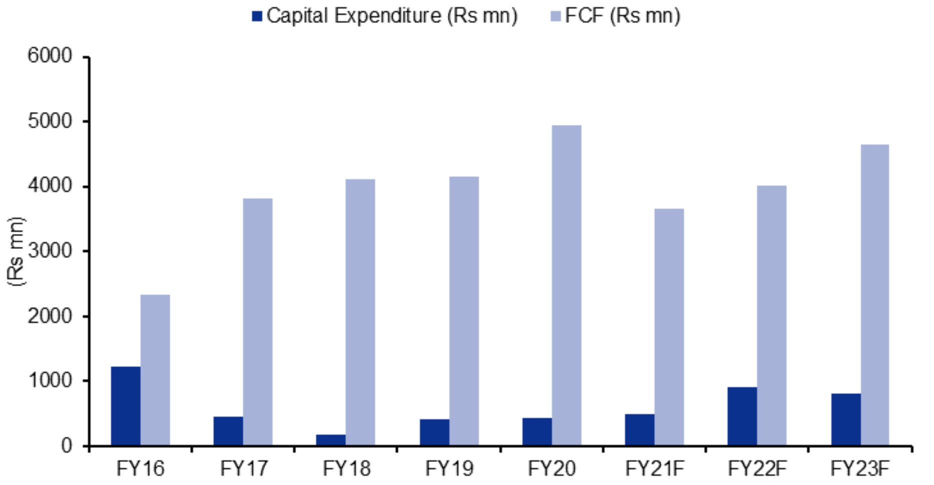
- Net cash is likely to increase from current Rs2.2bn (as on Dec 2020) to ~Rs8bn by FY23F given it has no major organic growth plans in the short term. The company repaid its first tranche of non-convertible debentures (NCDs) worth Rs1.25bn in FY20 and now has gross debt of Rs3.5bn (Rs1.2bn as interest-bearing loan and Rs2.4bn as interest-free loan). According to management, HEIM is expected to repay Rs1.25bn in FY21 (paid on 16 Dec 2020), and there is no repayment liability till FY22 as the repayment for the interest-free loan from the Uttar Pradesh government will start from FY23F (Rs2.34bn beyond FY22F).
- HEIM's return ratios have remained better than the industry average as it has been able to smartly manage its operations, improve operating profitability, generate strong cash flows and bring down debt – all while refraining from any aggressive capex. ROCE/ROE stood at 17%/ 22% for FY20.
- HEIM undertook timely debottlenecking at its Damoh (0.5mtpa) and Jhansi plants (0.55mtpa) at a cost of Rs200m, mainly from internal accruals. This should support volume growth over the next two years.
- We derive comfort from the judicious use of cash flows for capex and the company's balance-sheet strength. We believe post a dip in return ratios in FY21F, the company will see a gradual recovery from FY22F. We expect ROE/ROCE to move to 22%/19% by FY23F.

Figure 266: HEIM turned net cash positive in FY20; now at par with some large cap peers



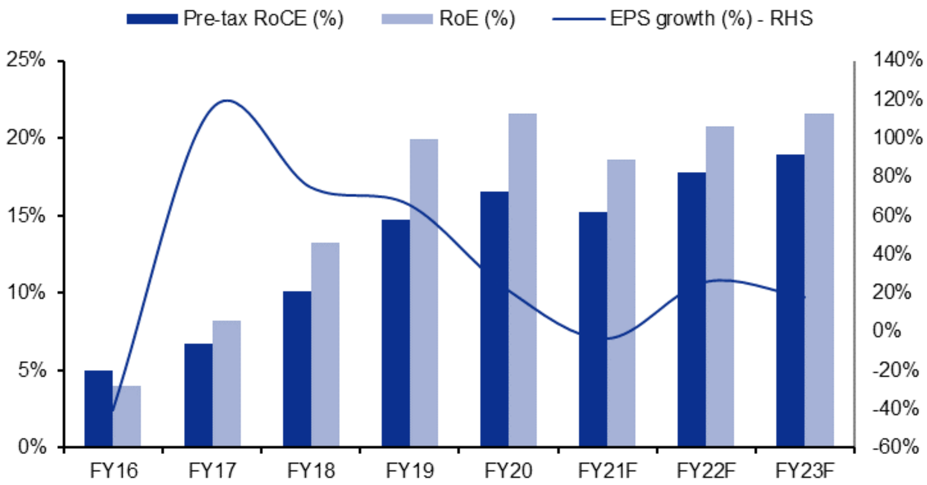
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 267: HEIM will likely continue to generate positive FCFF on the back of healthy OCF and lower capex



FCFF = FREE CASH FLOW TO THE FIRM
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 268: HEIM reported consistent improvement in ROCE from low single-digit in FY16 to high double-digit in FY20 and much ahead of its mid-cap peers



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Initiate with Add rating, FY23F TP of Rs268

Valuation

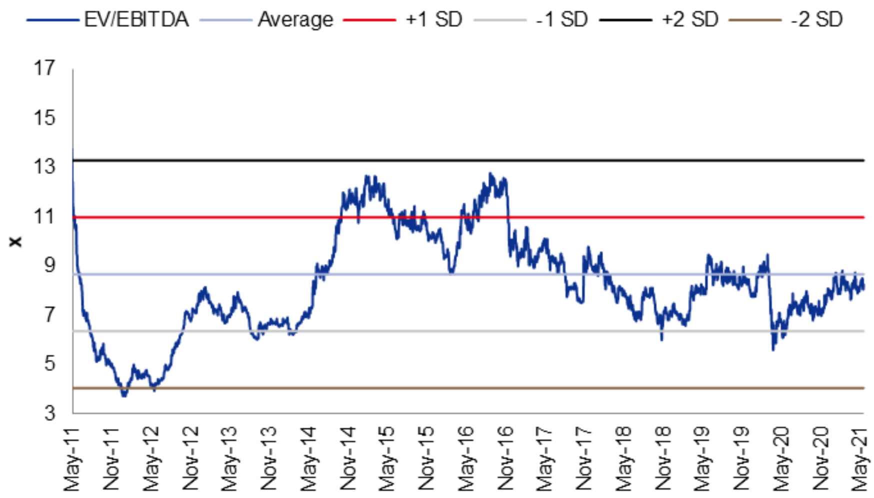
- We believe an increase in capacity post the recent debottlenecking should allay HEIM's growth concerns for the next two years. Capacity utilisation should gradually improve over the next two years once demand recovery kicks in again after the second wave of pandemic-led disruptions.
- Realisations should remain stable in the company's core markets due to favourable demand-supply dynamics even as cost optimisation hereon looks difficult.
- We build in volume/realisation/EBITDA per tonne CAGR of 6%/2%/1%, respectively, over FY20-FY23F. HEIM's balance sheet remains strong, and we believe it will continue to enjoy one of the best return ratios in the industry due to strong cash flow generation and absence of any major capex in the foreseeable future.
- HEIM is also an environmental, social, and corporate governance (ESG) standard-bearer in the mid-cap cement, boasting 100% blended cement with defined carbon intensity targets. A potential merger with Zuari will offer multiple growth options along with greenfield expansion in Gujarat. Overall, a potential merger (post the recent Mines and Minerals (Regulation and Development) Act (MMDR) amendment, the probability of Zuari merger increases) will drive synergies, in our view. Both companies are currently managed by Mr. Jamshed Naval Cooper, MD, and CEO.
- At CMP of Rs240, HEIM is trading at FY22F/FY23F EV/EBITDA of 8.5x/7.2x. We initiate coverage with an Add rating and a TP of Rs268 set at 8.5x FY23F EV/EBITDA – in line with its five-year average.

Figure 269: Our Target price of Rs268 is based on 8.5x FY23F EV/EBITDA

Valuation	**TP**
Target EV/EBITDA (x)	8.5
Target EV (Rs m)	55,519
Net debt (Rs m)	(5,315)
Target market cap (Rs m)	60,835
No. of shares (m)	227
Target price per share (Rs)	**268**

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 270: Current valuations at historical average of EV/EBITDA



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Risks

Downside risk ➤

- Any further slowdown in cement demand. Cement demand growth was badly impacted in early CY20 due to the COVID-19-led pandemic. Any prolonged slowdown in general construction activities in Central and South India, labour migration issues, issues with logistics (non-availability of truck drivers / loading, unloading labour, etc), and the increased and more intense spread of COVID-19 in rural areas are some of the key risks that can impact demand.
- Any major roll back in cement prices in Central and South India/ further rise in input costs over the medium term would dent realisations and EBITDA/t.
- Below-expected capacity addition in the long term.

Company introduction and management profile

Company background

- HEIM is a subsidiary of HeidelbergCement Group, Germany, one of the world's largest manufacturers of building materials. HeidelbergCement Group entered India in 2006 by acquiring majority stakes in Mysore Cements and Cochin Cements, and a joint venture with Indorama Cement, which became a full acquisition in 2008. Following the merger with Indorama Cement, Mysore Cements was renamed Heidelberg Cement India Ltd in 2009. HeidelbergCement Group (HCG) owns a 69.4% stake in the company, whereas the rest is owned by the public.
- In Dec 2013, HCG extended loans of Rs3.7bn to HEIM via 10.4% NCDs for brownfield expansion. These NCDs are redeemable in almost equal instalments in Dec 2019 and Dec 2021. As at Dec 2020, Rs1.2bn is outstanding which will be paid off by Dec 2021.
- HEIM has its operations in Central India at Damoh (Madhya Pradesh), Jhansi (Uttar Pradesh) and in South India at Ammasandra (Karnataka). In 2013, the company increased its capacity to 5.4mtpa through brownfield expansion of its facilities in Central India.
- The company operates its business through a single segment – the manufacture of cement. HEIM offers Portland slag cement (PSC), Portland Pozzolana Cement (PPC), clinker and ground granulated blast furnace slag (GGBS). The company offers its products under the brand names Mycem Cement, Mycem Power, and Mycem ConcreteMAX.
- Post the global merger of HeidelbergCement AG and Italcementi S.p.A. in 2016, Zuari Cement has become a wholly-owned subsidiary of the group. Zuari Cement is largely a South India-based cement company with capacities of 8mtpa for cement and 5.2mtpa for clinker as at FY21. Mr. Jamshed Naval Cooper, MD of HEIM is also MD of Zuari Cement. Post the recent Mines and Minerals (Regulation and Development) amendment, we believe the probability of a merger with Zuari increases.
- The company completed debottlenecking of the Imlai (MP) and Jhansi (UP) plants by 0.5m tonnes and 0.55m tonnes, respectively, at the end of FY20, leading to an increased capacity of 6.3mtpa.
- In FY15, HEIM sold its 0.6mtpa loss-making grinding unit at Raigad, Maharashtra, to JSW Cement.

HEIM's product portfolio

- HEIM offers multiple cement variants through its two marquee brands – Mycem and Mycem Power. These brands are 100% blended cement, i.e., PPC and PSC with Mycem Power being a premium offering.

Figure 271: HEIM's Mycem brand

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 272: Mycem Power – premium

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 273: Mycem ConcreteMAX - another of HEIM's premium products

SOURCES: INCRED RESEARCH, COMPANY REPORTS

HEIM's milestones

Figure 274: Journey of HEIM

1958	**HeidelbergCement India (HeidelbergCement) was established as Mysore Cements in 1958.**
1962	Company commenced its first 0.1mtpa dry process cement plant at Ammasandra, Karnataka.
1966	Mysore Cements doubled the capacity of its cement plant at Ammasandra, Karnataka, to 0.2mtpa.
1968	Company doubled the capacity with 0.4mtpa.
1978	Ammasandra capacity reached 0.6mtpa.
1983	Mysore Cements commenced 1st five stages of the pre-heater-based technology cement plant and set up a greenfield cement plant at Damoh in Madhya Pradesh with capacity of 0.5mtpa.
1989	Company set up a greenfield expansion 0.5mtpa grinding unit at Jhansi in Uttar Pradesh.
1990	Company increased its clinkerisation capacity at Damoh to 1mtpa by installing another six-stage pre-heater kiln.
2004	Mysore Cements started the commercial production of sponge iron at the Ammasandra plant in Karnataka, India.
2006	Cementrum I.B.V., a wholly-owned subsidiary of HeidelbergCement AG, acquired ~55% stake in Mysore Cements from the promoters and through open offer. Post-acquisition, Mysore Cements discontinued its other business segments like sponge iron & MS ingot and real estate.
2007	Mysore Cements announced a brownfield expansion plan in Damoh.
2008	Company approved its proposed amalgamation with Indorama Cement Ltd (IRCL) and HeidelbergCement India Pvt Ltd. and with Mysore Cements Ltd.
2009	The company changed its name from Mysore Cements Ltd to HeidelbergCement India Limited in 2009.
2011	HEIM shifted its cement plant from Ammasandra (Karnataka) to Gurgaon (Haryana) in 2011.
2013	Company set-up new plants at Narsingarh and Imlai in Damoh, Madhya Pradesh, India. HEIM commenced commercial production at the new grinding mill at Jhansi, Uttar Pradesh, India.
2014	HEIM sold its cement grinding facility at Raigad, Maharashtra, to JSW Steel Limited in 2014.
2014	Company completed and commissioned the expansion project at Narsingarh, Madhya Pradesh, which included the increase in clinker manufacturing capacity at Narsingarh, Madhya Pradesh, to 3.1mtpa and the cement capacity at Imlai, Madhya Pradesh to 2mtpa.
2016	Board appointed Kevin Gerard Gluskie as a Non-Executive Director in 2016.
2020	The company completed debottlenecking of Imlai (MP) and Jhansi (UP) by 0.5m tonnes and 0.55m tonnes respectively at FY20 end, leading to ~6.3mtpa capacity.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key management profile

Mr. Jamshed Naval Cooper – Managing Director

Mr. Cooper, aged 62 years, is a science graduate with a postgraduation in management, specialising in marketing, from the Institute of Management Studies, Indore University. Prior to joining HEIM, Mr. Cooper was with ACC Limited (a Holcim Group Co.) for 22 years. He joined HEIM as a Director of Sales & Marketing in Dec 2006 immediately after the Mysore Cements takeover. He helped revamp HEIM's sales and marketing setup, calibrating the channel network and logistics to focus on maximising the market share in high-revenue markets. He has been the Managing Director of Cochin Cements Ltd. since May 2007, which is also a part of the HeidelbergCement Group.

Mr. Sushil Tiwari – Whole-time Director

Mr. Sushil Tiwari, aged 62 years, is Electrical and Electronics & Communication Engineer from the Institute of Engineers, Kolkata. Mr. Tiwari has been the Whole-time Director at HEIM since 2011. He served at Lafarge India Pvt. Ltd. and has 36 years of experience.

Mr. Anil Kumar Sharma, CFO

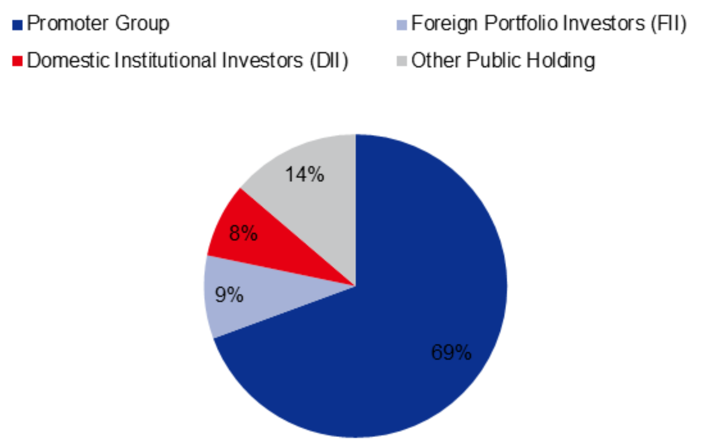
Mr. Sharma is a CA from the Institute of Chartered Accountants of India and holds a Company Secretary degree from the Institute of Company Secretaries of India. He joined Mysore Cements in 2002 and continued working with HeidelbergCement India when it acquired Mysore Cements in 2006. Mr. Sharma became Chief Financial Officer in 2010 and is associated with the company's taxation, treasury management, internal controls, and financial planning functions.

Figure 275: HEIM board members

Name	Designation
Mr. Jamshed Naval Cooper	Managing Director
Mr. Sushil Kumar Tiwari	Whole-time Director
Ms. Akila Krishnakumar	Chairperson (Independent Director)
Mr. Anil Kumar Sharma	CFO
Mr. Ramakrishnan Ramamurthy	Independent Director
Mr. Kevin Gerard Gluskie	Non-Executive Director
Ms. Soek Peng Sim	Non-Executive Director
Mr. Purnachander Molugu	Senior Management
Ms. Poonam Sharma	Senior Management – Director (HR)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

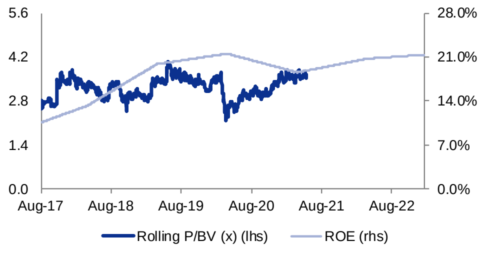
Figure 276: Shareholding pattern (as at Mar 2021)



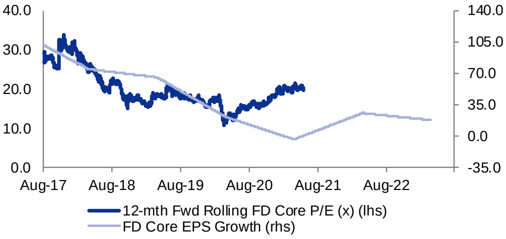
SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Net Revenues	**21,334**	**21,696**	**21,474**	**24,751**	**27,491**
Gross Profit	**21,334**	**21,696**	**21,474**	**24,751**	**27,491**
Operating EBITDA	**4,833**	**5,278**	**5,034**	**5,792**	**6,533**
Depreciation And Amortisation	(1,018)	(1,086)	(1,124)	(1,169)	(1,198)
Operating EBIT	**3,816**	**4,192**	**3,910**	**4,623**	**5,334**
Financial Income/(Expense)	(748)	(739)	(554)	(415)	(312)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	348	527	464	487	512
Profit Before Tax (pre-EI)	**3,416**	**3,981**	**3,820**	**4,695**	**5,534**
Exceptional Items					
Pre-tax Profit	**3,416**	**3,981**	**3,820**	**4,695**	**5,534**
Taxation	(1,210)	(1,300)	(1,234)	(1,441)	(1,699)
Exceptional Income - post-tax					
Profit After Tax	**2,207**	**2,681**	**2,586**	**3,254**	**3,836**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**2,207**	**2,681**	**2,586**	**3,254**	**3,836**
Recurring Net Profit	2,207	2,681	2,586	3,254	3,836
Fully Diluted Recurring Net Profit	**2,207**	**2,681**	**2,586**	**3,254**	**3,836**

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
EBITDA	4,833	5,278	5,034	5,792	6,533
Cash Flow from Invt. & Assoc.					
Change In Working Capital	205	(120)	411	592	95
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	348	527	464	487	512
Other Operating Cashflow	(1,421)	(1,110)			
Net Interest (Paid)/Received	(748)	(739)	(554)	(415)	(312)
Tax Paid	713	751	(1,234)	(1,441)	(1,699)
Cashflow From Operations	**3,931**	**4,587**	**4,122**	**5,016**	**5,129**
Capex	(420)	(435)	(500)	(900)	(800)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	156	294	(340)	(400)	100
Cash Flow From Investing	**(263)**	**(141)**	**(840)**	**(1,300)**	**(700)**
Debt Raised/(repaid)	(827)	(1,250)	(1,250)	(1,000)	(200)
Proceeds From Issue Of Shares		(70)	(1)	(1)	(1)
Shares Repurchased					
Dividends Paid	(950)	(1,227)	(1,034)	(1,301)	(1,534)
Preferred Dividends					
Other Financing Cashflow	(639)	(591)			(700)
Cash Flow From Financing	**(2,417)**	**(3,138)**	**(2,285)**	**(2,302)**	**(2,435)**
Total Cash Generated	1,251	1,308	997	1,413	1,994
Free Cashflow To Equity	**2,841**	**3,196**	**2,031**	**2,716**	**4,229**
Free Cashflow To Firm	**4,416**	**5,185**	**3,835**	**4,131**	**4,740**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Cash And Equivalents	3,377	4,706	5,703	7,116	9,110
Total Debtors	253	257	235	271	301
Inventories	1,674	1,458	1,500	1,729	1,921
Total Other Current Assets	3,570	3,821	3,436	3,836	4,399
Total Current Assets	**8,874**	**10,241**	**10,874**	**12,953**	**15,730**
Fixed Assets	17,368	16,811	16,187	15,918	15,520
Total Investments					
Intangible Assets	172	160	500	900	800
Total Other Non-Current Assets	540	716	716	716	716
Total Non-current Assets	**18,081**	**17,687**	**17,403**	**17,534**	**17,036**
Short-term Debt	1,250	1,250			
Current Portion of Long-Term Debt					
Total Creditors	2,778	2,584	2,612	3,034	3,351
Other Current Liabilities	5,105	5,456	5,476	6,312	6,873
Total Current Liabilities	**9,133**	**9,290**	**8,088**	**9,346**	**10,224**
Total Long-term Debt	3,918	2,801	2,801	1,801	1,601
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,192	2,691	2,691	2,691	1,991
Total Non-current Liabilities	**6,110**	**5,492**	**5,492**	**4,492**	**3,592**
Total Provisions					
Total Liabilities	**15,243**	**14,782**	**13,579**	**13,837**	**13,815**
Shareholders Equity	11,712	13,146	14,698	16,650	18,950
Minority Interests					
Total Equity	**11,712**	**13,146**	**14,698**	**16,650**	**18,950**

Key Ratios

	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue Growth	12.9%	1.7%	(1.0%)	15.3%	11.1%
Operating EBITDA Growth	33.0%	9.2%	(4.6%)	15.1%	12.8%
Operating EBITDA Margin	22.7%	24.3%	23.4%	23.4%	23.8%
Net Cash Per Share (Rs)	(7.90)	2.89	12.81	23.45	33.13
BVPS (Rs)	51.68	58.01	64.85	73.47	83.62
Gross Interest Cover	5.10	5.68	7.06	11.13	17.12
Effective Tax Rate	35.4%	32.7%	32.3%	30.7%	30.7%
Net Dividend Payout Ratio	43.3%	45.9%	40.0%	40.0%	40.0%
Accounts Receivables Days	3.77	4.29	4.18	3.74	3.80
Inventory Days	25.18	26.34	25.14	23.81	24.23
Accounts Payables Days	55.79	59.61	57.68	54.35	55.60
ROIC (%)	24.3%	27.6%	27.0%	33.0%	39.7%
ROCE (%)	22.8%	24.6%	22.5%	25.7%	27.4%
Return On Average Assets	11.3%	12.5%	11.2%	12.5%	13.1%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** - Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – n/a, n/a, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, PTT - Excellent, Certified, PTTEP - Excellent, Certified, PTTGC - Excellent, Certified, QH – Excellent, Certified, RBF – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** - Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2020 from Thai Institute of Directors Association (IOD)
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Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.