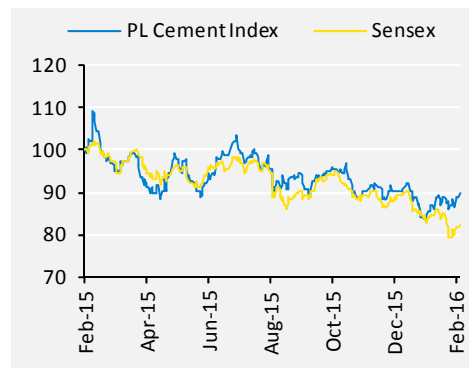


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Sensex v/s PL Cement Index



Source: Bloomberg

Stock Performance

(%)	1M	6M	12M
Sensex	(2.6)	(13.0)	(18.6)
PL Cement Index	5.0	(2.2)	(10.0)
ACC	2.6	(9.5)	(21.4)
Ambuja Cement	1.5	(13.7)	(25.5)
Shree Cement	8.9	(2.4)	(2.7)
UltraTech Cement	6.7	(2.6)	(4.0)
The Ramco Cement	(0.9)	4.4	8.5
JK Lakshmi Cement	(8.6)	(24.0)	(24.6)

Our coverage of cement companies reported earnings ahead of our expectation on the back of better than expected operational performance. Contribution from fall in energy and freight costs drove 17% YoY growth in EBITDA/t despite fall in realisations. Sales volume rose 6% YoY for our coverage stocks (having 56% share in aggregate volumes of all the listed companies) against flat volumes in rest of the listed cement companies. We continue to maintain our **Overweight** outlook on the sector as we believe that prices would recover in North (on the back of continued strength in demand and improved discipline) and sustained price discipline in Southern region. We like ACC, Ultratech (UTCEM) and JK Lakshmi (JKLC).

- **Cement volumes up ~4% YoY:** Based on our data, aggregate volumes of all exchange listed cement companies grew 3.6% YoY in the quarter to ~56m tonnes. North/Eastern regions outperformed with growth of 10%/16%. Volumes in Western region grew by 3% YoY on the back of low base. While, Southern region witnessed fall of 2% on account of weakness in Karnataka and floods in Tamil Nadu.
- **Lower costs drive the beat in earnings:** Realisations for our coverage universe fell 1% YoY/Rs50/tonne (t) higher than our expectation of fall of Rs10/tonne. However, the same was offset by sharper than expected fall in energy cost, packaging cost and freight cost. Hence, total cost fell 4% YoY/Rs160/t against our estimate of Rs80/t. EBITDA/t expanded 17% YoY at Rs720 (PLe:Rs690). Thanks to higher volumes and expansion in margins, EBITDA/PAT rose 24%/14% YoY (PLe:17%/0.7%)
- **Price discipline re-emerging in North:** Intense competition dragged prices to unfeasible levels in North and Central regions. Impacted by sharp deterioration in earnings (during December and January), discipline re-emerged in these regions to revive prices from near 5-year low levels. Prices have improved by Rs15-20/bag in North and Central region during last one week. Our channel checks suggest that demand continued to grow at healthy rate of 8-10% in North and East on the back of increased Govt spending and low cost housing. While demand remained tepid in South and West region due to sluggish real estate sector and low govt spending.

Exhibit 1: Valuation Summary

Company	Rating	CMP (Rs)	TP (Rs)	EBITDA (Rs m)		PAT (Rs m)		P/E (x)		P/B (x)		EV/EBITDA (x)		EV/t (USD)	
				FY17E	FY81E	FY17E	FY81E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
ACC	BUY	1,282	1,600	14,785	20,882	7,147	11,193	33.6	21.4	2.8	2.6	15.3	10.2	105.6	99.8
Ambuja cement	Acc	196	230	18,468	22,218	11,567	14,152	26.1	21.3	2.8	2.7	13.8	11.5	128.4	128.1
Shree cement	Acc	10,810	12,000	23,376	27,912	12,681	14,298	29.3	25.9	4.8	4.0	14.3	11.3	170.8	146.3
Ultratech	Acc	2,923	3,200	59,252	74,177	32,972	44,778	158.3	151.3	23.7	17.4	13.4	10.3	158.3	151.3
The Ramco Cements	BUY	370	490	11,622	13,913	5,636	7,277	15.6	12.1	2.5	2.2	9.5	7.8	126.1	123.1
JK Lakshmi	BUY	271	400	5,222	6,429	1,579	2,570	20.0	12.3	2.2	2.0	9.4	7.3	64.5	56.9

Source: Company Data, PL Research (All prices as on February 22, 2016)

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Exhibit 2: Volumes of listed cement companies grew 3.6% YoY in Q3FY16 on a low base

Company name	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Birla Corp	1.8	1.9	2.0	2.0	2.0
Century Textiles	2.7	2.9	2.9	2.5	2.8
Dalmia Bharat	2.7	3.2	3.1	2.9	3.0
Jaiprakash Associates	3.3	3.9	3.2	3.1	2.6
Mangalam Cement	0.6	0.6	0.6	0.6	0.6
Orient Cement	1.0	1.0	1.0	1.0	1.1
Prism Cement	1.3	1.5	1.4	1.3	1.2
Rain Commodities	0.5	0.5	0.6	0.6	0.5
Sagar Cement	0.3	0.5	0.5	0.4	0.3
Star Ferro and Cement	0.5	0.7	0.7	0.5	0.7
Trinethra Cement	0.3	0.3	0.3	0.3	0.3
Sanghi Cement	0.6	0.6	0.7	0.5	0.7
Kesoram	1.3	1.4	1.4	1.3	1.3
Binani cement	1.1	1.2	1.2	1.0	1.0
KCP	0.3	0.3	0.4	0.3	0.4
Shree Digvijay	0.2	0.2	0.2	0.3	0.2
NCL industries	0.3	0.3	0.3	0.3	0.3
Deccan	0.2	0.3	0.3	0.3	0.3
Gujarat Sidhee cement	0.3	0.3	0.3	0.3	0.3
Saurashtra	0.3	0.4	0.3	0.3	0.3
ACC	5.8	5.8	6.2	5.6	6.0
Ambuja Cement	5.4	5.4	6.0	4.9	5.5
Heidelberg Cement	1.1	1.1	1.2	1.1	1.1
India Cement	2.1	2.1	2.1	2.2	1.9
JK Cement	1.5	1.7	1.6	1.6	1.8
JK Lakshmi Cement	1.5	1.6	1.7	1.7	1.8
Ramco Cements	1.7	1.9	1.8	1.7	1.6
Shree Cement	3.8	4.1	4.3	4.2	4.7
UltraTech Cement	11.0	11.8	12.1	10.8	11.5
Total of listed cos.	53.8	57.6	58.2	53.6	55.7
Growth (%) -YoY	5.1	-2.3	2.4	3.5	3.6

Source: Company Data, PL Research

Exhibit 3: Financial performance of listed pure-play cement companies

	Revenues (Rs Mn)		EBITDA (Rs Mn)		PAT (Rs Mn)		Realization (Rs/t)		EBITDA/t (Rs/t)	
	Q3FY16	Q3FY15	Q3FY16	Q3FY15	Q3FY16	Q3FY15	Q3FY16	Q3FY15	Q3FY16	Q3FY15
Birla Corporation	8,071	7,568	576	397	131	150	4,107	4,151	293	218
Dalmia Bharat	14,737	7,941	3,481	1,246	273	-204	4,979	2,930	1,176	460
Mangalam Cement	2,126	2,133	102	95	-2	-24	3,865	3,865	186	172
Orient Cement	3,537	3,841	239	613	-131	311	3,369	3,740	227	597
Sagar Cement	1,236	1,245	139	59	31	11	3,951	3,715	444	176
Star Ferro and Cement	4,287	3,382	917	1,180	291	376	6,566	6,566	1,405	2,291
Trinethra Cement	1,238	1,142	227	19	59	-173	3,674	3,731	674	62
Sanghi Cement	2,572	2,421	526	351	268	71	3,896	3,764	797	546
Deccan cement	1,258	1,022	213	141	62	23	4,444	4,294	752	593
Saurashtra cement	1,258	1,329	1	189	-26	118	3,745	3,931	2	559
Gujarat Sidhee cement	1,147	1,088	52	-92	42	-62	3,699	3,422	168	-289
Shree Digvijay cement	907	958	111	7	65	-48	4,200	3,925	515	28
India Cement	9,194	10,118	1,360	1,346	55	-117	4,746	4,802	748	760
Heidelberg cement	4,027	4,103	576	530	89	-99	3,695	3,726	529	482
ACC	28,461	27,623	2,138	1,823	1,024	1,209	4,409	4,489	356	316
JK Lakshmi cement	6,483	5,559	669	754	-117	268	3,681	3,704	380	502
Ramco cement	8,119	7,861	2,446	1,001	1,059	230	4,995	4,570	1,506	577
Shree cement	18,268	15,419	3,749	2,725	1,030	778	3,418	3,540	798	715
Ultratech cement	57,473	54,898	10,439	8,457	5,086	3,644	4,866	4,860	910	770
Ambuja cements	23,558	23,790	3,042	3,324	1,656	2,418	4,260	4,376	550	611
Aggregate	197,956	183,439	31,002	24,165	10,946	8,881	4,391	4,298	711	589

Source: Company Data, PL Research

Exhibit 4: Actual v/s estimate for our coverage universe

	ACC		JK Lakshmi cement		Ramco cement		Shree cement		Ultratech		Ambuja	
	Q3FY16A	Q3FY16E	Q3FY16A	Q3FY16E	Q3FY16A	Q3FY16E	Q3FY16A	Q3FY16E	Q3FY16A	Q3FY16E	Q3FY16A	Q3FY16E
Revenue (Rs Mn)	28,461	28,662	6,483	6,355	8,119	7,363	18,268	18,458	57,473	57,032	23,558	23,156
EBITDA (Rs Mn)	2138	1924	669	788	2,446	1,644	4,240	4,501	10,439	9,620	3,042	3,183
PAT (Rs Mn)	1,024	624	-117	-73	1,059	503	1,030	1,495	5,086	4,331	1,656	1,726
Volume (mn tonnes)	6.0	6.0	1.76	1.74	1.63	1.51	4.70	4.64	11.47	11.20	5.53	5.50
Realization (Rs/ton)	4409	4428	3,681	3,650	4,995	4,870	3,418	3,574	4,866	4,946	4,260	4,210
Freight (Rs/ton)	1,135	1,167	911	900	907	960	791	870	1,184	1,200	1,131	1,100
Power and fuel (Rs/ton)	967	1,070	780	690	709	700	800	820	931	936	833	950
Other expenses (Rs/ton)	1,471	1,450	676	607	1,013	1,323	1,008	993	1,124	1,163	1,744	1,900
EBITDA (Rs/ton)	356	321	380	452	1,506	1,087	798	849	884	834	550	579

Source: Company Data, PL Research

ACC

- **Lower costs drove the beat:** Volumes grew 4% YoY to 6m tonnes (t), in line with our expectation. Realisations fell 1.8 YoY (Rs80)/2.7% QoQ (Rs120) to Rs4,409/t, tad below our expectation of Rs4,428. Total cost/t fell 1.9% YoY/Rs84 to Rs4,387, better than our expectation of Rs4460. Better performance on cost was driven by lower than expected energy (Rs967 v/s PLe:Rs1070) and freight cost (Rs1135 v/s PLe:Rs1169). EBITDA/t rose 13% YoY to Rs356, above our expectation of Rs317. EBITDA rose 17% YoY to Rs2.1bn (PLe: Rs1.9bn). PAT fell 15% YoY to Rs1.0bn (PLe:Rs0.6bn), impacted by 8% YoY (Rs118m) increase in depreciation (due to change in useful life of assets under the new Cos act) and 18% fall in other income.

JK Lakshmi Cement

- **Earnings below expectation on account of elevated shutdown cost:** Volumes rose 17% YoY at 1.76m tonnes (PLe:1.74m tonnes). Realisations fell marginally by 0.3% QoQ (-0.6% YoY) at Rs3681, ahead of our expectation of Rs3650. Thanks to volume growth, revenue grew 16.6% YoY at Rs6.48bn (PLe:Rs6.36bn). Impacted by higher repairs cost and high cost coal inventory, total cost came above our expectation at Rs3300 (PLe:Rs3200), up 3% YoY (down 0.3% QoQ). Hence, EBITDA/t fell 24% YoY (flat QoQ) at Rs380/t against our expectation of Rs452. EBITDA fell 11% YoY at Rs669m against our expectation of Rs788m. Company reported loss of Rs37m despite one-time gain of Rs80m on sale of shares in Udaipur cement works. Adjusted for the same, loss came at Rs117m against expectation of loss of Rs73m.

The Ramco Cements

- **Beat across the counts:** Marred by floods in Tamil Nadu, cement volumes fell 5.4% YoY to 1.63m tonnes, ahead of our estimate of 1.51m tonnes. Realisations rose 9.3% YoY (Rs424)/1.4% QoQ (Rs70) to Rs4,995, exceeding our estimate of Rs4,870. Total cost/t fell 13% YoY (Rs504)/0.6% QoQ (Rs20) to Rs3489 below our estimate of Rs3783 due to lower than expected freight cost and other expenses. Hence, EBITDA/t rose 2.6x/Rs930 YoY to Rs1506 ahead of our expectation of Rs1087. Led by higher margins, EBITDA rose 2.4x YoY at Rs2.4bn (PLe:Rs1.6bn). Aided by lower interest expense, PAT (adjusted for prior year tax write back of Rs119m) grew 4.6x YoY at Rs1.06b (PLe:Rs0.50bn).

Shree Cement

- **Cement EBITDA up 37% YoY with 23% volume growth and 11% rise in EBITDA/t:** Thanks to new capacity in the East, volumes grew 23% YoY at 4.7m (PLe: 4.6m) tonnes (t). While, realisations fell 3% YoY/Rs120 (-6% QoQ/Rs230) at Rs3,418, below our estimate of Rs3,574. Lower fuel cost (pet coke prices down 15% YoY) and 9% fall in freight cost helped SRCM to reduce costs by 7% YoY or Rs205/t to Rs2,620 (PLe: Rs2,725). Hence, EBITDA/t rose 12% YoY to Rs798 (PLe: Rs849). Aided by volume growth and lower costs, Cement EBITDA grew 37% YoY at Rs3.75bn (PLe:Rs3.94bn).
- **Power business contributed EBITDA of Rs500m:** Volumes rose 10% YoY at 539m (PLe: 560m) units. Realisations fell 13% YoY (-6 QoQ) at Rs3.4/unit, in line with our estimate. Cost/unit fell 25%/Rs0.8 at Rs2.5 on the back of lower pet coke cost and higher scale. Thanks to lower costs and higher scale, EBITDA grew 59% YoY at Rs491m (PLe:Rs560m).

Ultratech Cement

- **Cement volumes up 7%; EBITDA/t expanded by 18% YoY/6% QoQ:** UTCEM beat industry (up 4.5% YoY) and our estimate (PLe:+4%) on cement volumes with growth at 7% in the quarter. It sold 11.8m (PLe:11.5m) tonnes (t) of total volumes (including clinker and white cement), up 4.6% YoY. Blended realisations remained flat YoY at Rs4866 while QoQ, it fell 3.6%/Rs183. Cost/t fell 3% YoY/Rs129 to Rs3,982 (PLe:Rs4,112) on account of steep reduction of 17%/Rs196 in energy cost, offset by contribution to DMF (Rs28/t) and higher cost associated with amendment of bonus act (Rs26/t). EBITDA grew 23% YoY at Rs10.4bn above our expectation of Rs9.6bn. PAT grew 40% YoY at Rs5.1bn (PLe:Rs4.3bn) on the back of lower tax rate, off-set by higher depreciation.

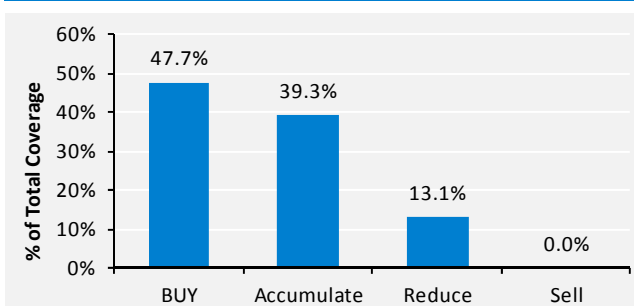
Ambuja Cement

- **Realisations above expectation; higher costs dented higher realisations:**
Realisations fell 2.6% YoY /Rs115/t (-0.4% QoQ/Rs17) at Rs4260, above our expectation of Rs4,210/t. Volumes were in-line-with our expectation at 5.5m tonnes, up 1.7% YoY. Total cost/t fell 1.4% YoY/Rs54 to Rs3,710, higher than our expectation of Rs3,630. The miss was primarily on account of higher than expected freight cost. Hence, EBITDA/t came below our estimate at Rs550 (PLe:Rs579), down 10% YoY. EBITDA fell 8.5% YoY at Rs3.0bn (PLe:3.2bn). Adjusted PAT fell 32% YoY to Rs1.66bn (PLe:Rs1.73bn) due to 21% YoY increase in depreciation (due to change in useful life of assets under the new Cos act) and higher tax rate.

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