DEALMONEY MONTHLY MAGAZINE

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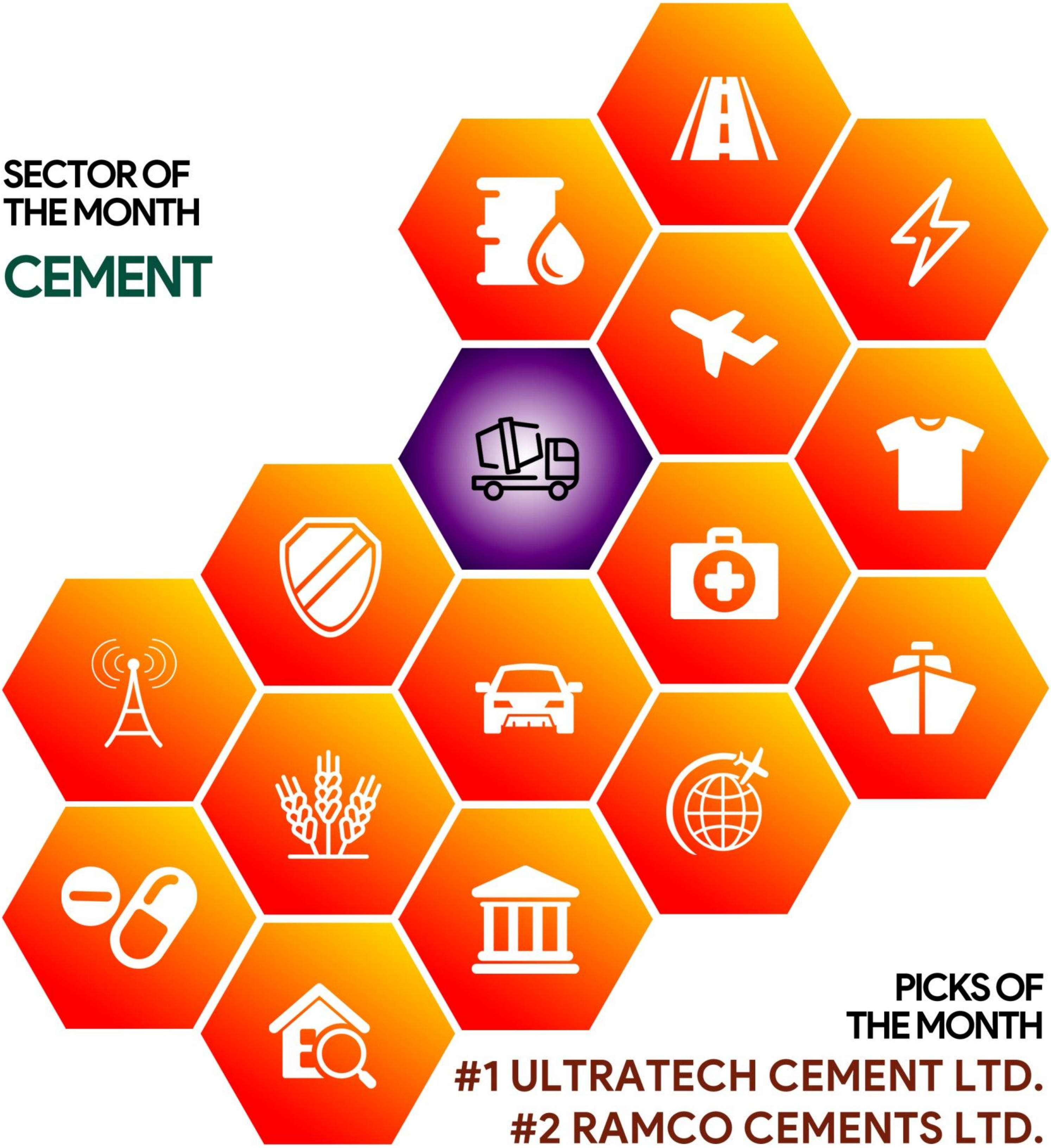
SECTOR OF THE MONTH

CEMENT



PICKS OF THE MONTH

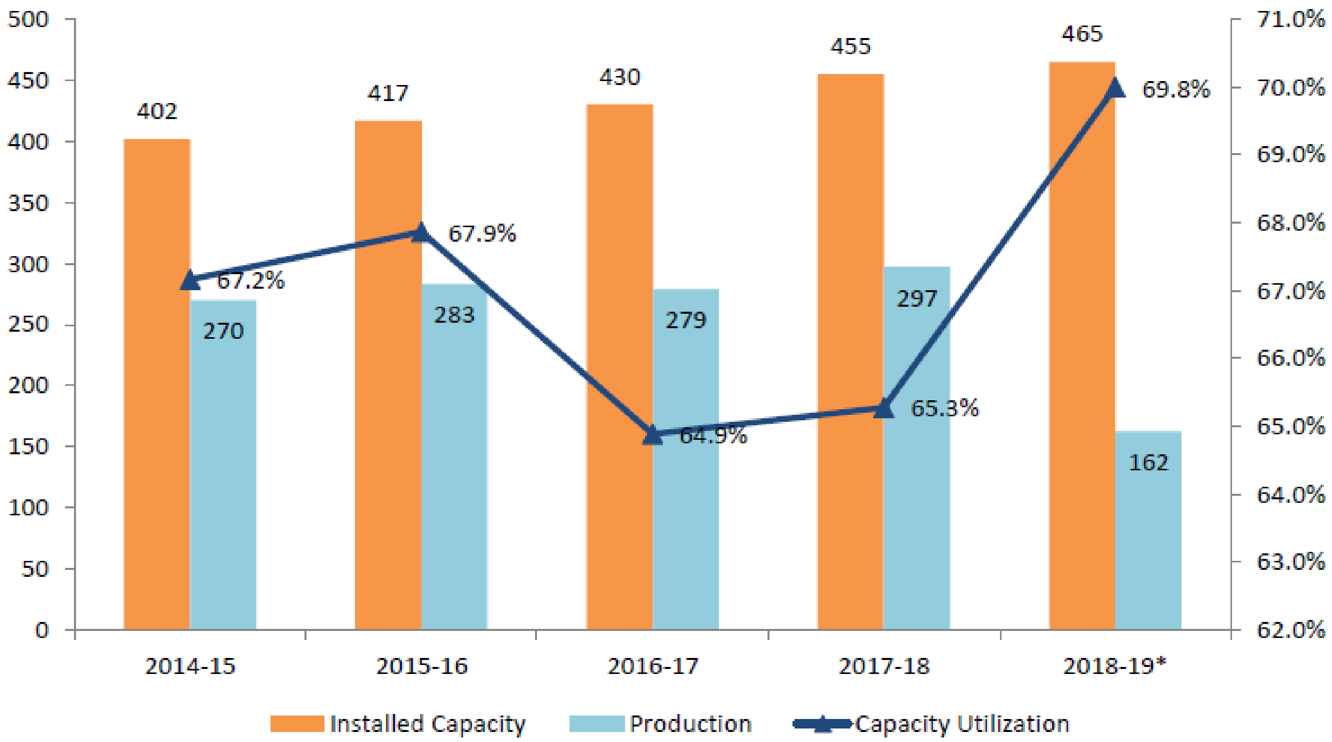
#1 ULTRATECH CEMENT LTD.
#2 RAMCO CEMENTS LTD.

EQUITIES | COMMODITIES | WEALTH | MUTUAL FUNDS | INSURANCE

Sector of the Month (Cement):

- India, the world's 2nd largest cement market in terms of production with capacity of around 502 million tonnes, as of 2017-18 and expected to grow to 550 million tonnes by 2020. Cement production capacity stood at 502 million tonnes per year (mtpy) in 2018. Capacity addition of 20 million tonnes per annum (MTPA) is expected in FY19- FY 21. India also stands at 2nd position when it comes to consumption of cement with its huge geographical presence.
- During the year 2018-19(Apr-Nov), industry has shown a double digit growth of over 14% as compared to a marginal growth of around 1% in the year 2017-18 (Apr-Nov). As per the production data obtained from the official site of the Economic Advisor, Ministry of Commerce & Industry, Cement industry has shown a CAGR of over 5% in the year 2018-19 from 2014-15 (Apr-Nov).
- The private players in cement sector rules with 98 per cent market share, while 2% lies with public sector. The top 20 companies accounting for around 70 per cent of the total production. 210 large cement plants account for a cumulative installed capacity of over 410 million tonnes, while over 350 mini cement plants have an estimated production capacity of nearly 11.10 million tonnes.
- Of the total 210 large cement plants in India, 77 are situated in the states of Andhra Pradesh, Rajasthan & Tamil Nadu.
- India's exports of cement, clinker and asbestos cement increased at CAGR of 10.37 per cent between FY12-FY18 to reach US$ 433.87 million. During the same period imports of cement, clinker and asbestos cement increased at a CAGR of 11.14 per cent to US$ 174.36 million in FY18.

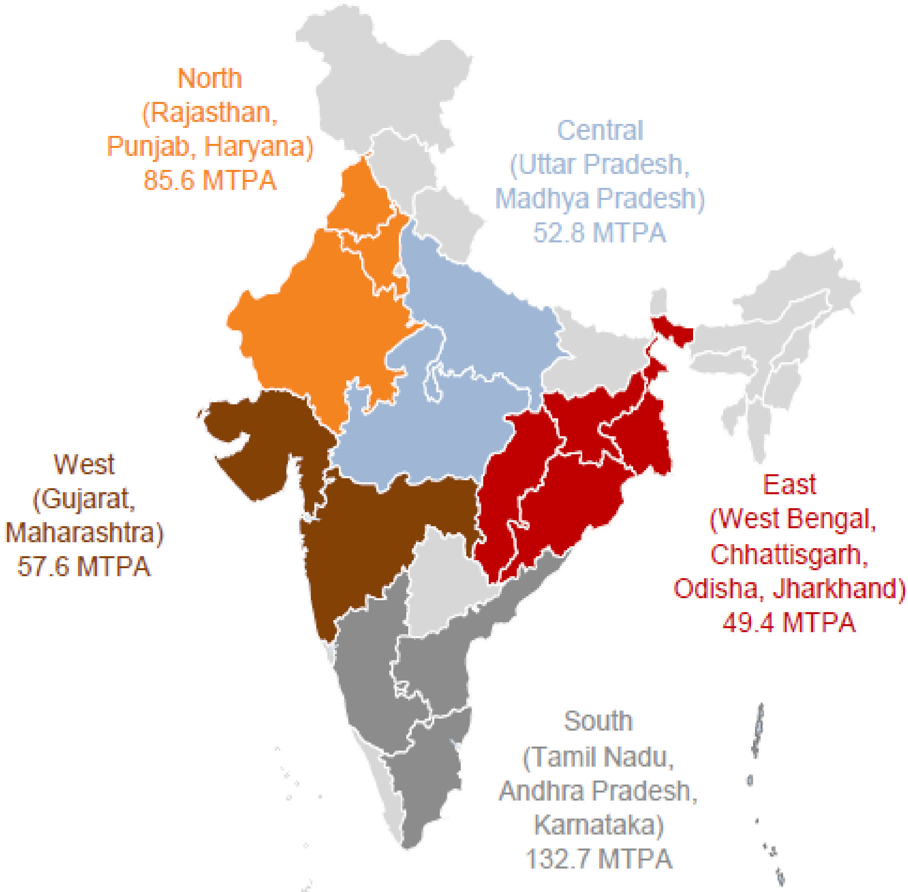
Graph 2. India: Supply, demand (in million tonnes) and capacity utilization (in %)



*Source: CMIE, CARE Estimates *Production Data for April-September FY19*

Source: Ace equity, CARE, IBEF

Installed capacity and key markets in each of the geographic regions



Overall capacity utilisation has improved by over 4 percentage points to close to 70% which is a substantial improvement. Higher volume would provide some comfort and help spread the increased cost of fuel & power for manufacturing.

The year witnessed steady implementation and completion of mega-infrastructure projects especially in the Northern and Central region with Rajasthan and Madhya Pradesh set for Assembly Election in Nov-Dec. Union Government-backed mega-infrastructure projects such as “Bharatmala” for roads, “Sagarmala” for ports and development of dedicated freight corridors and smart city projects witnessed a surge in activity in terms of award and implementation of new and existing projects respectively. Around 34 infrastructure projects with an outlay of over Rs. 150 crore have been completed in April-August period across major infrastructure sectors.

Source: Ace equity, CARE, IBEF

Performance in H1 FY19

- Cement Sector in India saw a growth of around of 14% during first half of FY2019 after it was boosted by the government initiative on the number of announcements made in Infrastructure and housing and it committed to boost its infra spending.
- During the H1FY19, stable construction activity in residential real estate, increased demand from affordable housing and robust demand from infrastructure segment have ensured cement capacity utilization improves to 70%.
- Construction activity picked up in the housing segment across Western, Eastern and Southern Region. Affordable housing scheme for rural and urban areas supported demand for cement in the housing segment. Though floods in the Southern state of Kerala and Karnataka disrupted demand during the Aug-September months, it is expected to recover in the following months as reconstruction and rehabilitation work picks pace.
- Northern and Central region witnessed higher activity in the infrastructure segment, especially with elections in 3 states in the region namely Rajasthan, Madhya Pradesh and Chhattisgarh.

Government led spending will continue to be a key growth driver:

- Government Housing Plan –
  - Housing for all: Targets to construct 20 mn houses for urban areas and 40 mn in rural areas
  - Pradhan Mantri Awas Yojana – Gramin (PMAY –G) : ~9.3 mn houses sanctioned till Feb 2019
  - Pradhan Mantri Awas Yojana – Urban (PMAY –U) : ~ 7.9 mn houses sanctioned till Feb 2019 vs ~4.2 mn at the end of FY18
- Roads construction - 83,667 kms of road construction is approved which is expectd to beconstructed by 2022.
- Western and Eastern dedicated freight corridor (capex of ~USD 13 bn)
- 100 smart cities project where government has identified first 20 smart cities for the project (capex plan USD 7.5 bn in next 5 years)
- Metro rail networks (Plan to construct ~1000 Kms network)
- Bullet train project from Ahmedabad to Mumbai (expected capex of ~USD 17 bn)
- Port Development where goverrment has targetted to increase the handling capacity to more than double to 3000 mn tons by 2025 (capex of ~USD 15 bn)

Demand Drivers:

Housing and real-estate segment is driven by demand from rural and urban housing in affordable segment. Above average monsoon ensured steady demand from the rural markets. In the residential real estate segment, the demand has remained stable and construction activity improved in H1FY19 vs FY18.

Infrastructure segment may continue to remain in focus during the year as far as cement demand is concerned. Roads and public infrastructure like railways, bridges, metros would contribute to over 3-5 MT of incremental demand for cement.

Urbanisation: Development of 500 cities with population of more than 100,000 under new Urban Development Mission.

Source: Ace equity, CARE, IBEF

Outlook

Cement demand in India is on an upswing and is expected to witness robust growth. The growth will be driven by high cement demand from rural India and government's focus on infrastructure. The North-East, which is witnessing a construction boom, offers attractive investment opportunities.

Robust investments are being made by the existing companies to expand their capacity. Earlier this year India's Government announced a number of proposals in the Union Budget 2018-19 that are directly linked with the sector's growth profile. India is expected to spend INR 645 billion in FY18-19 on the 'Housing for All by 2022' programmes and close to INR 6 trillion on infrastructure. The Government also plans to extend its rural road network scheme connecting all eligible habitations under Phase III of Prime Minister Gram Sadak Yojana (Prime Minister's Rural Road Scheme), set up new government medical colleges and hospitals, renovate about 600 railway stations and suburban railway infrastructure, and renew 26,000 km of railway lines. Due to the increased government initiatives and robust demand in various sectors such as housing, commercial construction and industrial construction, cement industry is expected to reach 550-600 Million Tonnes Per Annum (MTPA) by the year 2025.

The Union Council of India has approved a US$1.4bn distress fund to help developers finish partially completed residential developments.

Furthermore, it has allocated INR 10 billion for the National Investment and Infrastructure Fund (NIIF), which is being leveraged to raise INR 80 billion from strategic anchor partners according to the Government's Output Outcome Framework for Schemes 2017-18. The NIIF has attracted equity investment of US$ 100m from the Asian Infrastructure Investment Bank (AIIB) and is expected to secure another US$ 100m from AIIB.

Last-mile financing for stalled affordable and middle income housing projects cleared by the government on Wednesday will give the much-needed support to the real estate and construction sector which is a large job-creator and boost demand for key manufacturing industries like cement and steel. Thus, a strong traction seen in the last few quarters in PMAY-Urban, PMAY-Gramin and Highway construction, cement demand saw a robust growth. Moreover, management commentary also indicated that other infra projects like irrigation work in South India states, metro related work in Tier I & II cities of India and strong progress in residential construction activities in Tier I cities also led to strong cement growth in the country.

Source: Ace equity, CARE, IBEF

Pick of the Month (UltraTech Cemet Ltd.): CMP: 4185 Target: 4640

UltraTech's subsidiaries are Dakshin Cements Limited, Harish Cement Limited, Gotan Limestone Khauj Udyog Private Limited, Bhagwati Limestone Company Private Limited, UltraTech Cement Lanka (Pvt.) Ltd., UltraTech Cement Middle East Investments Limited, PT UltraTech Mining Indonesia and PT UltraTech Investments Indonesia.

Ultratech in talks to sell stake in Bangladesh based unit – The company is looking to sell its entire stake of Bangladesh based unit to Hiedelberg cement. In terms of the agreement, Ultratech Cement Middle East Investment Limited will divest its entire shareholding at an enterprise value of BDT (Bangalesh Taka) equivalent of USD 29.5 million subject to obtaining necessary regulatory approvals in compliance with the laws of Bangladesh.

Cement Industry in steady upward trajectory: The industry has been facing many headwinds from demand slowdown, slow infrastructure development and lower realization. Visible trigger that are witnessed are lower input cost, interest rate cut by RBI and hopes of increase in spends towards infrastructure and housing. Cement price overall have been flattish around Rs. 305-310/bag.

Capital expansion plan: UltraTech Cement on the back of recently announced capex of Rs 9.4 billion to setup 2.2 mnt greenfield grinding unit (GU) at Odisha and 0.6mnt/0.6mnt brownfield GU at existing units in Bihar/West Bengal which are expected to be completed by Q4FY22e. This capex gives a visibility of better demand scenario over the period of 1-2 years.

Valuation: Currently, the stock is trading at the EV/TTM EBITDA valuation of 16.25x FY19. We recommend buy on Ultratech Cement at the CMP of Rs. 4185 with the target price of Rs.4640.

NSE / BSE Code	ULTRACEMCO/ 532538
Sector	Construction Materials
Industry	Cement & Construction Materials
Face value / Book Value (` per share)	10
Dividend yield (%)	0.27%
52 H/L (Rs.)	4934/ 3340
Market Cap. (Rs. Cr)	1,228,269.6
Shares Outstanding (Cr)	288.6
NSE / BSE Code	63,054

Quarterly Earnings	Q3FY19	Q2FY19	QoQ Var%	Q3FY18
Net Sales	12824	13486	-4.9	11413
Total Expenditure	10239	10269	-0.3	9377
PBIDT (Excl OI)	3001	3623	-17.2	2546
PAT	1701	1932	-12.0	1182
PBIDTM% (Excl OI)	23	26	-13.1	21
PBIDTM%	23	27	-12.6	22
PATM%	13	14	-7.6	10

(In Rs.Mn)	FY16	FY17	FY18	FY19
Net Sales	251,532	253,749	309,786	373,792
Sales Growth	3.3%	0.9%	22.1%	20.7%
EBITDA	49,010	52,124	61,452	67,485
EBITDA Margin	19.5%	20.5%	19.8%	18.1%
PAT	24,796	27,135	22,246	24,311
NPM%	9.9%	10.7%	7.2%	6.5%
Adj. EPS (Rs.`)	90.3	98.9	80.9	88.7

	FY16	FY17	FY18	FY19
P/E (x)	35.74	40.34	48.79	45.11
P/B (x)	4.04	4.49	4.11	3.87
EV/Sales(x)	3.85	4.56	4.12	3.53
EV/EBITDA(x)	18.06	19.75	18.96	18.22
ROCE(x)	13.0%	13.8%	11.5%	10.5%
ROE(x)	12.1%	11.7%	8.8%	8.9%

Source: Ace equity, CARE, IBEF

Pick of the Month (The Ramco cements Ltd.): CMP: 784 Target: 870

The Ramco Cements Limited, formerly Madras Cements Limited, manufactures cement, ready-mix concrete and dry mortar products. The Company operates in two segments: Cement and Power generation from Windmills. It is also engaged in the sale of surplus electricity generated from its windmills and thermal power plants. Its Cement Plants are located in Tamil Nadu, Andhra Pradesh and Karnataka. Its Grinding Units are located in Tamil Nadu and Andhra Pradesh. Its Wind Farm Division is located in Tamil Nadu and Karnataka. Its Packing plant, readymix concrete plant, dry mortar plant and research and development center are located in Tamil Nadu.

Ramco Cements continued its growth trajectory and reported strong Q2FY20 results. The beat was led by strong volume growth with other operational cost improvement coming broadly in-line. . Blended realizations improved marginally by 0.8% YoY to Rs.4,834/t. Revenues during the quarter increased 11.2% YoY to Rs. 1316.7 crore, led by 10.3% growth in volumes to 2.72 MT Falling fuel prices and strong logistics cost control led to 1% reduction in cost YoY on operating expense. Management expects further cost reduction in next 2 quarters, owing to continued slide in fuel prices.

Strong volume growth: When industry growth was muted in the quarter, Ramco Cements however surprised positively with double digit growth of 10% in Q2FY20.

Capacity set to increase to 20mn MT in FY21E: Ramco Cement is set to complete its expansion works, aimed at raising total production capacity to 20Mt/yr from 12.5Mt/yr, by the end of 2020.1 MT commissioned in Kolaghat, West Bengal and 3.75 MT of clinker capacity to be commissioned over FY20E and FY21E. These expansions will enhance Ramco's sales capability across the eastern and southern regions and also lower operating cost for the eastern sales.

Valuations: The stock is trading at a valuation of 19.07x EV/TTM EBITDA FY19. We recommend ***buy** on* ***Ramco Cements Ltd.*** with a price target of ***Rs. 870.***

NSE/BSECode	RAMCOCEM/ 500260
Sector	Construction Materials
Industry	Cement & Construction Materials
Facevalue/BookValue(`pershare)	1
Dividendyield(%)	0.37%
52H/L(Rs.)	845/ 553
MarketCap.(Rs.Cr)	188,602.8
SharesOutstanding(Cr)	235.6
NSE/BSECode	37,688

Quarterly Earnings	Q3FY19	Q2FY19	QoQ Var%	Q3FY18
Net Sales	12824	13486	-4.9	11413
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PATM%	13	14	-7.6	10

(InRs.Mn)	FY16	FY17	FY18	FY19
NetSales	35,818	39,673	44,250	51,623
SalesGrowth	-2.0%	10.8%	11.5%	16.7%
EBITDA	10,770	12,082	11,135	10,456
EBITDAMargin	30.1%	30.5%	25.2%	20.3%
PAT	5,313	6,542	5,605	5,075
NPM%	14.8%	16.5%	12.7%	9.8%
Adj.EPS(Rs.`)	22.9	27.8	24.0	21.7

	FY16	FY17	FY18	FY19
P/E(x)	11.40	16.96	20.23	21.48
P/B(x)	3.04	4.20	4.20	3.82
EV/Sales(x)	3.24	4.35	4.13	3.66
EV/EBITDA(x)	10.06	13.84	15.96	17.66
ROCE(x)	15.9%	18.3%	16.3%	13.5%
ROE(x)	18.5%	18.9%	14.2%	11.7%

Source: Ace equity, CARE, IBEF

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