Dealmoney
World-Class Financial Services

MONTHLY MAG

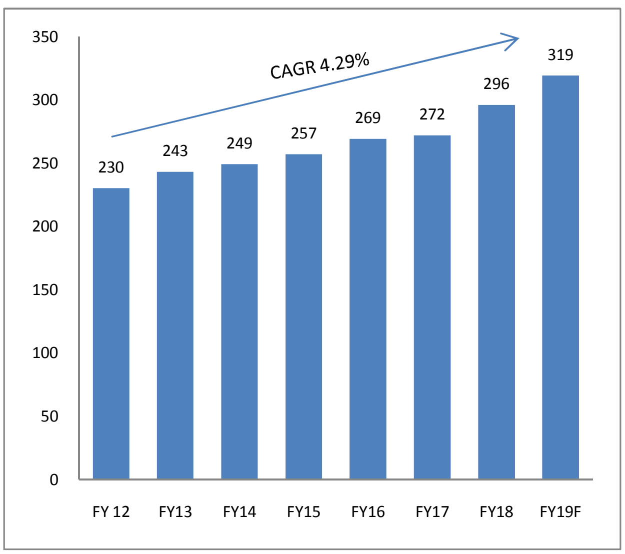
September 2018

- ✓ Sector of the month
- ✓ Picks of the month

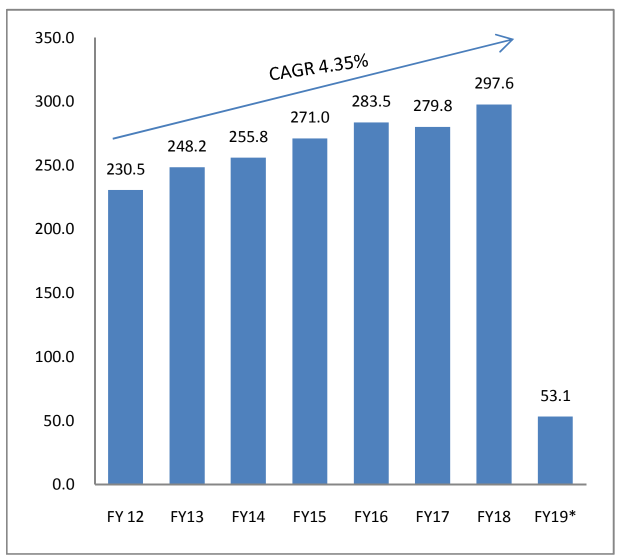
Sector of the Month (CEMENT):

- India - world's 2nd largest cement market, both in production and consumption. Cement production capacity of around 455 million tonnes, as of 2017-18. India's cement production capacity is expected to reach 550 million tonnes by 2020. Capacity addition of 19-22 MTPA is expected in 2018-19, led by rising capacity in eastern region^.
- Of the total capacity, 98 per cent lies with the private sector & the rest 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.
- The country's top export destinations for cement, clinker and asbestos cement in FY18 were Nepal, Sri Lanka, USA, Maldives and UK.
- The country's top five import sources for cement, clinker and asbestos cement in FY18 were Pakistan, Bangladesh, Japan, Vietnam and Thailand

Cement consumption (million tonnes)



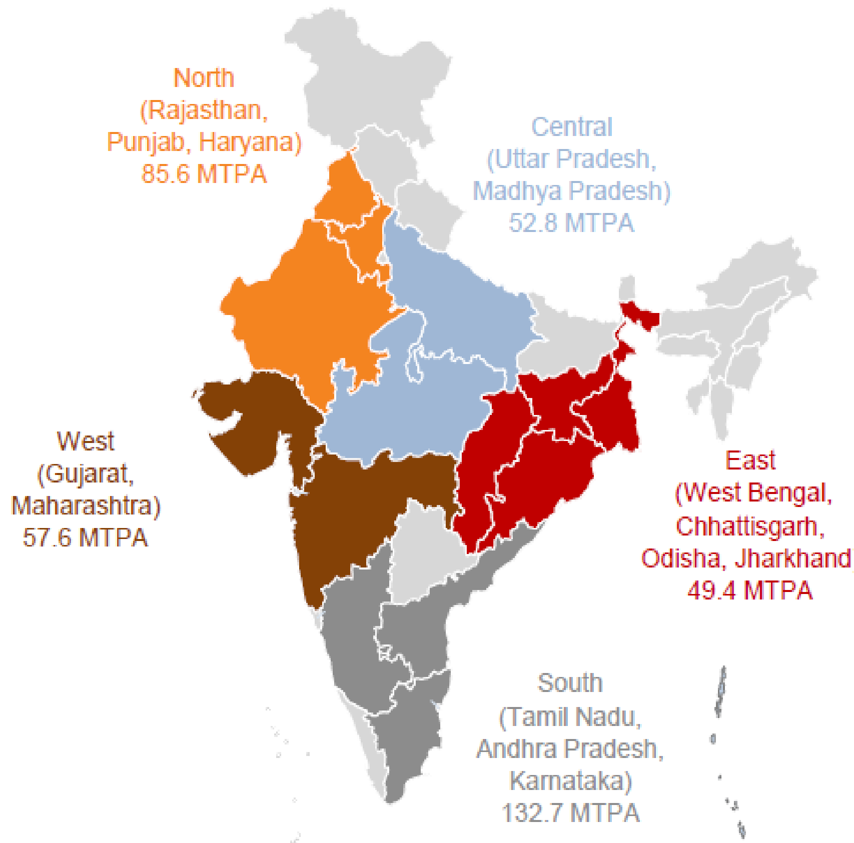
Cement Production in India (million tonnes)



*Note: F-Forecast, *up to May 2018*

Source: CRISIL, CARE ratings, Media

Installed capacity and key markets in each of the geographic regions



Tie – up with overseas: India has joined hands with Switzerland to reduce energy consumption & develop newer methods in the country for more efficient cement production, which would help India meet its rising demand for cement in the infrastructure sector.

Housing for All: Under Union Budget 2018-19, allocation for affordable housing has been doubled to US$ 123.57 million. Housing and real estate sectors accounts for nearly 65 per cent of the total cement consumption in India.

Adoption of cement instead of Bitumen and Ready Mix Concrete (RMC): The Government of India has decided to adopt cement instead of bitumen for the construction of all new road projects on the grounds that cement is more durable & cheaper to maintain than bitumen in the long run. Companies are trying to develop a niche market for RMC (Ready Mix Concrete)

Mergers & Acquisitions: As of June 2018, ACC is in discussions with Jaiprakash Associates to purchase the latter's 5.5 MTPA cement business for a consideration of Rs 5,200 crore (US$ 775.66 million). In May 2018, Ultratech Cement decided to acquire the 13.4 MTPA capacity cement business of Century Textiles and Industries.

Source: CRISIL, CARE ratings, Media

Growth Drivers

Housing: Forms the major portion of cement demand at around 67 per cent. Real estate market to increase at 11.6 per cent CAGR in 2011-20. Government initiatives like Housing for all to push demand in the sector.

Infrastructure: Strong focus of government to develop infrastructure. It is planning to develop 100 smart cities across India, Projects like Dedicated Freight Corridors and ports are under development. Metro rail projects are already underway in most major cities.

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

Government Initiatives

The Union Budget has allocated US$ 92.22 billion for infrastructure development in 2018-19 as compared to US$ 76.31 billion in 2017-18 (RE). Government's infrastructure push combined with housing for all, **Smart Cities Mission and Swachh Bharat Abhiyan** is going to boost cement demand in the country.

In Budget 2018-19, Government of India announced setting up of an **Affordable Housing Fund of Rs 25,000 crore** (US$ 3.86 billion) under the National Housing Bank (NHB) which will be utilised for easing credit to homebuyers. The move is expected to boost the demand of cement from the housing segment.

An outlay of Rs 33,000 crore (US$ 5.097 billion) has been proposed for building 4.9 million houses under **Pradhan Mantri Awas Yojana – Gramin** in Union Budget 2018-19.

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 players to expand their capacity. FDI inflow in industry related to manufacturing of Cement & Gypsum products reached US$ 5.25 billion between April 2000 and December 2017. Oligopoly market, where large players have partial pricing control and Low threat from substitutes

Demand environment witnessed an uptick in Aug'18 albeit on a low MoM base (triggered by nationwide transporters' strikes) aided by sustained pick-up in government spending. However, seasonal overhang continued to hurt trade segment demand, while non-trade project segment demand was the key demand driver led by government sponsored infrastructure projects.

Notably, most dealers expect a strong recovery in sales volume post festive and pitru paksh season across the regions, as they expect favorable monsoon to lead to better demand. We note that while monsoon deficit as on Aug'18 stands at 6%, the country witnessed favorable downpours in most regions barring North East and some Eastern states, where deficit is the highest.

With strong improvement in demand scenario leading to demand growth of ~7% in FY18 and sustained demand growth in 1QFY19, we believe all tailwinds are in place to accelerate cement demand. Thus, the demand is expected to remain healthy over next 2-3 years. However, depressed pricing environment and surge in fuel and input prices were the key headwinds for the industry. However, likely price recovery post monsoon is expected to aid the companies to sail through recent surge in input cost.

Source: CRISIL, CARE ratings, Media

Pick of the Month (ACC Ltd.): CMP: 1590 Target: 1800

Normal monsoon and rural demand to augur well: The construction sector is bound benefit from uptick in rural demand and normal monsoon off-late. Further cement consumption is likely to be pushed by higher infrastructure spends in low cost housing and roads along with a pick-up in capital expenditure to aid increase in cement consumption.

The company is at expansion phase in eastern region by ~5 MT (of which 2.2 MT is in process at Kharagpur) which would drive volumes up and further higher realization would improve topline in medium term.

Improvement in EBITDA per tonne: Total cost per tonne increased 5.5% YoY due to a rise in power & fuel and freight cost as well as raw material prices. Power & fuel cost rose 7% YoY due to an increase in petcoke & coal prices and lower availability of linkage coal. Raw material cost rose by 15% YoY and 3% QoQ, following an increase in slag prices.

Steady financial position: The revenue for Q2CY18 fell marginally by 1.3% to Rs. 3767.9 crs from Rs. 3818.21 in Q2CY17. At EBITDA level, the company witnessed weakness due to rising cost especially power & fuel cost (7% YoY) and raw material cost (+15 YoY). The EBITDA for Q2CY18 was at Rs. 624.9 crs. ACC's profitability grew by tad 1.1% YoY to Rs. 326.77 crs in Q2CY18 from Rs. 323.12 crs in Q2CY17.

ACC grew at tepid pace of 1.8% CAGR between CY13-17. In CY17, the company reported double-digit growth led by capacity expansion. The outlook is brighter further mainly on the back of better monsoon, hike in MSP, increase in agricultural output and pre-election spending. The company's return ratios have been witnessing a upswing from last 3 years. RoE and RoCE grew from 6.9% and 9.98% in CY15 to 10.1% and 15.4% in CY17, respectively.

Outlook: The stock is available at attractive valuations of 11.6x CY19E EV/EBITDA with EV per ton (USD) of $119 CY19E. The company is at zero debt and looking to expand its total capacity to 55 MTPA by CY22.

NSE / BSE Code	ACC
Sector	Construction Materials
Industry	Cement & Construction Materials
Face value / Book Value (` per share)	10 / 511.2
Dividend yield (%)	1.5
52 H/L (Rs.)	1869 / 1255
Market Cap. (Rs. Cr)	298,206
Shares Outstanding (Cr)	187.8
NSE / BSE Code	1,470,968

	June-18	Mar-18	Dec-17	Sept-17
Net Sales	3,767.9	3,557.0	3,417.1	3,054.5
EBITDA	624.9	491.9	443.0	415.8
PAT	326.8	247.4	202.6	178.9
EBITDA %	17.1%	14.9%	14.0%	14.1%
PAT %	8.5%	6.8%	5.8%	5.7%

(In Rs. Cr)	FY14	FY15	FY16	FY17
Net Sales	111,501	117,388	109,897	132,851
Sales Growth	0.0%	5.3%	-6.4%	20.9%
EBITDA	16,225	14,956	14,725	19,063
EBITDA Margin	14.6%	12.7%	13.4%	14.3%
PAT	10,817	11,507	6,480	9,136
NPM%	9.7%	9.8%	5.9%	6.9%
Adj. EPS (Rs.`)	58.3	61.9	35.1	49.2

	FY14	FY15	FY16	FY17
P/E (x)	27.6	25.9	46.0	32.6
P/B (x)	3.8	3.6	3.5	3.2
EV/Sales(x)	2.5	2.4	2.6	2.1
EV/EBITDA(x)	17.4	18.9	19.2	14.8
ROCE(x)	17.4%	15.1%	10.2%	15.4%
ROE(x)	14.4%	14.5%	7.1%	10.1%

Source: CRISIL, CARE ratings, Media

Pick of the Month (Ambuja Cement Ltd.): CMP: 228 Target: 300

Decent top-line growth and better than expected realization: The company posted net sales of Rs. 6835.12 crs in Q2CY18 vs Rs. 6459.56 crs om Q1CY18 primarily driven by a higher realization/ton of INR 4736. The company has been very focused on its premium products, i.e, Compocem and Roof Special. Cement volumes for the quarter grew 5% YoY at 6.37 mn tons on the back of strong growth in the IHB (Independent House Building) segment .

Optimum Capacity utilization: Its volume grew 5.6% contributed by sales in northern region(including central India) and the eastern region. The capacity utilisation touched 88% in 2QCY18. Ambuja sold 0.04mt clinker in 2QCY18. This implies optimum capacity utilisation of the kilns and ACEM will have to rely on external clinker or source it through ACC for any further volume expansion till it adds its own capacity.

Financial health: The company's net sales grew 5.7% in Q2CY18 to Rs. 6835.1 from Rs. 6459.1 cr in Q1CY18. EBITDA for the company stood at Rs 1250.01 crs in Q2CY18 from Rs. 1001.5 crs in Q1CY18. EBITDA margins improved from 15.5% in Q1CY18 against 18.3% in Q2CY18 on the back of good operational efficiency despite higher freight cost (due to lack of availability of rakes in Eastern region) and higher raw material prices which put pressure on margins.

Reported PAT for quarter stood at Rs. 681.97 crores, jumped by strong 33% QoQ. Capacity utilization was at 87% for the June quarter. Realization/ton has increased to INR 4730, up from INR 4720 (0.4% Y-o-Y) and INR 4600 (2.8% Q-o-Q).

Outlook: With increasing Government's focus on rural and affordable housing and infrastructure development and initiatives like normal monsoon, MSP for kharif crops and buoyant agricultural output gives the confidence for higher and sustainable volumes. Thus, we believe the stock has the potential to give return of 15%. The stock is trading at the EV/EBITDA valuation of 14.5x CY19E and EV/t of $183 CY19E

NSE / BSE Code	AMBUJACEM
Sector	Construction Materials
Industry	Cement & Construction Materials
Face value / Book Value (` per share)	2 / 102.2
Dividend yield (%)	1.4
52 H/L (Rs.)	291 / 189
Market Cap. (Rs. Cr)	452,727
Shares Outstanding (Cr)	1,985.6
NSE / BSE Code	1,470,968

	June-18	Mar-18	Dec-17	Sept-17
Net Sales	6,835.12	6,459.56	6,170.71	5,376.87
EBITDA	1,250.01	1,001.50	985.81	772.79
PAT	681.97	510.78	474.47	348
EBITDA %	18.3%	15.5%	16.0%	14.4%
PAT %	10.0%	7.9%	7.7%	6.5%

(In Rs. Cr)	CY14	CY15	CY16	CY17
Net Sales	91,808	99,735	201,319	235,753
Sales Growth	0.0%	8.6%	101.9%	17.1%
EBITDA	16,587	19,283	31,812	38,576
EBITDA Margin	18.1%	19.3%	15.8%	16.4%
PAT	12,784	14,865	14,228	19,321
NPM%	13.9%	14.9%	7.1%	8.2%
Adj. EPS (Rs.`)	8.3	9.6	5.6	7.6

	CY14	CY15	CY16	CY17
P/E (x)	35.4	30.5	31.8	23.4
P/B (x)	4.8	4.5	4.4	2.2
EV/Sales(x)	4.4	4.0	2.0	1.7
EV/EBITDA(x)	24.3	20.9	12.6	10.4
ROCE(x)	17.2%	18.8%	12.3%	14.7%
ROE(x)	14.2%	15.3%	7.9%	9.5%

Source: CRISIL, CARE ratings, Media

Analysts: -

Brijesh Bhatia - Research Head brijesh.bhatia@dealmoney.in

Menil Savla – Research Analyst menil.savla@dealmoney.in

For private circulation only Website: www.dealmoneyonline.com

SEBI Research Analyst Registration No: INH000002319

DISCLAIMER

Dealmoney Securities Private Limited (hereinafter referred to as “Dealmoney”) is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. Dealmoney is also registered as a Depository Participant with CDSL. Dealmoney is in the process of making an application with SEBI for registering it as a Research Entity in terms of SEBI (Research Analyst) Regulations, 2014. Dealmoney or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market and no material disciplinary action has been taken by SEBI/other regulatory authorities impacting Dealmoney’s Equity Research Analysis. Dealmoney or its associates/analyst including its relatives do not hold any actual/beneficial ownership of more than 1% in the company/ies covered by Analyst (hereinafter referred to as “Subject Company/ies”). Dealmoney or its associates/analyst including its relatives may hold financial interest in the company/ies covered by Analyst (hereinafter referred to as “Subject Company/ies”). Dealmoney or its associates/analysts or his/her relative does not receive any compensation or other benefits from the subject company/ies mentioned in this research report (hereinafter referred to as “Report”) or from a third party in connection with preparation of the report. Accordingly, Dealmoney or its associates/analyst or his/her relative does not have any other material conflict of interest at the time of publication of the Report.

Research analyst/s engaged in preparation of the Report, has not received any compensation / managed or co-managed public offering of securities of the subject company/ies / has not received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation or other benefits from the subject company/ies or third party in connection with the Report of the subject company/ies during the past twelve months / has not served as an officer, director or employee of subject Company/ies and is not engaged in market making activity of the subject Company/ies.

Dealmoney or its associates are engaged in various financial services business, thus, it might have, received any compensation / managed or co-managed public offering of securities of the subject company/ies / received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / received compensation or other benefits from the subject company/ies or third party in connection with the Report of subject company/ies during the past twelve months engaged in market making activity for the subject company/ies.

Dealmoney group companies provides finance related product services like distribution of financial products and as such is a provider of many services like loans, mutual funds, tax & trust planning etc. mentioned in this brochure. And hence, Dealmoney do not warranty / guarantee about performance of any products and customer servicing w.r.t third party products per se.

Third party products are subject to code of conduct to be adhered to by the representatives of Dealmoney and Dealmoney is not responsible for the losses, whether actual or notional incurred by any investor. Services assured and expected may vary from actual service and Dealmoney does not guarantee about the quality of services. Investments in securities and commodities are subject to market and other risks and there is no assurance or guarantee that the objectives of any of the Investments/Schemes/product would be achieved. Past performances are only indicative and returns are not assured and guaranteed by Dealmoney group companies. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

Reports on technical and derivative analysis are based on studying charts of a stock’s price movement, outstanding positions and trading volume as opposed to focussing on a company’s fundamentals and as such, may not match with a report on a company’s fundamentals. The opinions expressed in the Report are our current opinions as of the date of this report and may be subject to change from time to time without notice. Dealmoney or any persons connected with it do not accept any liability arising from use of this material/document/Report.

Information/ opinion conveyed through this material/document/Report are strictly meant for the registered Clients of Dealmoney group of Companies of the respective segments. This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Dealmoney or its affiliates to any registration requirement within such jurisdiction or country. This information does not constitute an offer to sell or a solicitation of an offer to buy any financial products to any person in any jurisdiction where it is unlawful to make such an offer or solicitation. No part of this material may be duplicated in whole or in part in any form and / or redistributed without the prior written consent of Dealmoney. This material/document/Report is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on directly or indirectly.

Recipients of the Report shall always independently verify reliability and suitability of the Report and opinions before investing.
For Company details, please visit our website www.Dealmoney.com
For research related query, write to us at research@Dealmoney.com