Sector Thematic

Cement

Riding High

In this report, we highlight long-term trends that are likely to drive the cement industry over the next few years - (1) brighter demand outlook, (2) continued consolidation - as bigger players accelerate capacity additions, (3) industry's continued efforts towards reducing its clinker factor and increasing productivity of WHRS, (4) business agility in the form of exploring multiple fuel sources to optimize cost and the industry's ability to manage its fixed costs. In our view, these will support the industry to maintain its multi-year high margins, and support its valuation re-rating. We expect robust 4QFY21E performance by the industry (aggregate EBITDA to rise 12/35% QoQ/YoY). We also initiate on Sagar Cements (BUY, TP: INR 1,082) enthused by its prudent growth, diversification beyond south market and healthy Opex controls. Post the sharp run-ups in stock prices, we downgrade Shree Cement and Ramco Cements to REDUCE (from ADD). Top picks: Ambuja, Dalmia in large-caps; Birla Corp, JK Lakshmi and Sagar Cements in mid-caps.

Rajesh Ravi
Cement
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Saurabh Dugar
Cement
saurabh.dugar@hdfcsec.com
+91-22-6171-7353

INSTITUTIONAL RESEARCH

Cement

Riding High

In this report, we highlight long-term trends that are likely to drive the cement industry over the next few years - (1) brighter demand outlook, (2) continued consolidation - as bigger players accelerate capacity additions, (3) industry's continued efforts towards reducing its clinker factor and increasing productivity of WHRS, (4) business agility in the form of exploring multiple fuel sources to optimize cost and the industry's ability to manage its fixed costs. In our view, these will support the industry to maintain its multi-year high margins, and support its valuation re-rating. We expect robust 4QFY21E performance by the industry (aggregate EBITDA to rise 12/35% QoQ/YoY). We also initiate on Sagar Cements (BUY, TP: INR 1,082) enthused by its prudent growth, diversification beyond south market and healthy Opex controls. Post the sharp run-ups in stock prices, we downgrade Shree Cement and Ramco Cements to REDUCE (from ADD rating earlier). Top picks: Ambuja, Dalmia in large-caps; Birla Corp, JK Lakshmi and Sagar Cements in mid-caps.

- **Key trends driving the industry over the next few years**: In our view, the overall demand outlook appears brighter for the next 3-5 years, led by healthy traction in government-driven low-cost housing and various infrastructure projects, and recovery in the real estate sector. Moreover, retail demand remains healthy too. We expect the industry to continue to consolidate, led by accelerated organic expansions by the bigger companies. Both these factors should boost industry's pricing power. On the cost front, we highlight these trends: increasing productivity of newer WHRS plants, rising share of fly ash and slag in blended cement (leading to reduction in clinker factor and carbon emissions). The industry is currently more agile to choose from multiple sources (thermal coal and pet coke). Additionally, in FY21, the industry also exhibited its capability to manage fixed costs during adverse situations like COVID lockdown. These, in our view, should reduce the industry's overall Opex volatility, boosting margin outlook.
- **4QFY21E preview:** On the basis of 14 cement companies under coverage, we expect 4Q volumes to rise 11% QoQ (+23% YoY on a low base), leading to robust 88% utilisation (multi-year high)! Late price recovery, in our view, should offset the impact of soaring fuel prices. Hence, we expect unitary EBITDA to inch up 1% QoQ (on a high base) to INR 1,205/MT (+10% YoY). Thus, we expect aggregate EBITDA to rise 12/35% QoQ/YoY in 4QFY21E.
- **Initiate coverage on Sagar Cement:** We add Sagar Cements to our active coverage universe, with a BUY rating and a target price of INR 1,082. We like Sagar Cements for its continued capacity/sales expansions, which are well supported by its large limestone reserves and steady balance sheet. The company's continued reduction in clinker factor and focus on green power are helping it boost margins as well as attain lower carbon emissions.
- **Earnings and ratings review:** We marginally upgrade earnings estimates for some of our coverage stocks, factoring in better volume and realisation trends. We expect industry's unitary EBITDA to soar to its all-time high of ~INR 1,240/MT in FY21E and to sustain at ~INR 1,200/MT levels during FY22-23E. We roll forward valuations for our coverage universe to Mar'23E (from Dec'22E earlier). We downgrade our ratings on Shree Cement and Ramco Cements to REDUCE (from ADD), post the sharp run-up in their stock prices. We maintain BUY ratings on other stocks under coverage.

COMPANY	RATING	TP (INR)
UltraTech Cem	BUY	7,350
Shree Cement	REDUCE	27,100
Ambuja Cem	BUY	358
ACC	BUY	2,185
Dalmia Bharat	BUY	1,770
Ramco Cements	REDUCE	984
JK Cement	BUY	3,070
Birla Corp	BUY	1,451
Heidelberg Cem	BUY	276
Star Cement	BUY	130
JK Lakshmi	BUY	520
Orient Cement	BUY	121
Sagar Cement	BUY	1,082
Deccan Cement	BUY	555

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Saurabh Dugar
saurabh.dugar@hdfcsec.com
+91-22-6171-7353

Contents

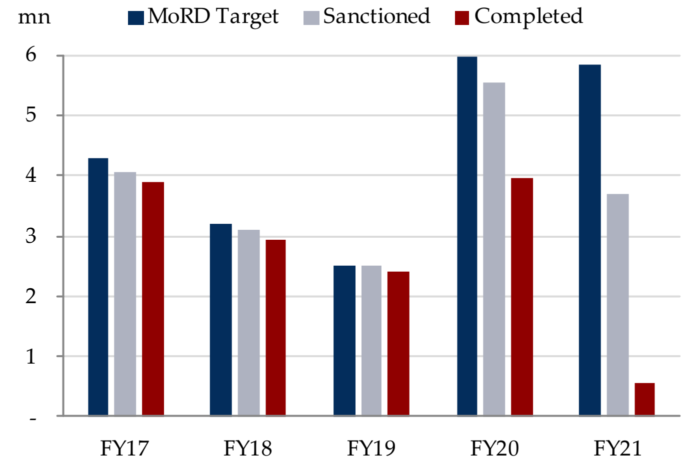
Strong demand outlook

We believe various factors will boost cement demand in the coming years. The government-led rural and urban housing programs are progressing well and should add to cement demand. Similarly, the government's ambitious infrastructure program under NIP should both directly and indirectly bolster cement consumption. After a long time, even the real estate sector is witnessing a recovery. Rural demand continues to remain strong, which has been the mainstay for cement demand while infra and real estate sectors picked up in 2HFY21.

Low-cost housing program to accelerate over next two years

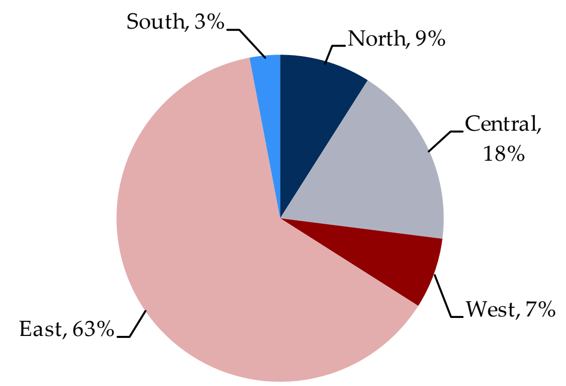
The central government's low cost rural housing program – Pradhan Mantri Aawas Yojna- Gramin (PMAY-G) sought to address the rural housing shortage of 29.5mn houses by 2022, in two phases. The program is progressing well and by end of FY20, the government had already sanctioned financial assistance for construction of ~15mn houses. Even during FY21, despite COVID impact during 1HFY21, another ~4mn houses got sanctioned. So far, ~47% of the targeted rural housing construction has been achieved. The government is looking to accelerate the financial sanctioning and construction work to meet its target by 2022.

Rural housing execution under PMAY-G scheme during the past five years



Source: Industry, HSIE Research

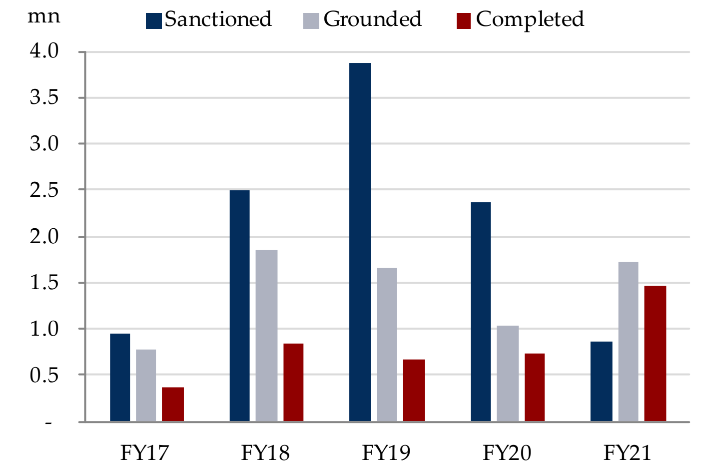
Region-wise split of rural houses completed under PMAY-G during FY19-21



Source: Industry, HSIE Research

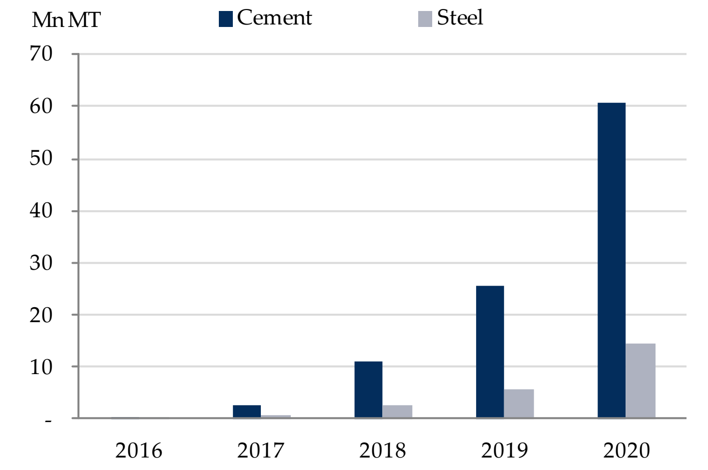
Even in case of its urban housing program- Pradhan Mantri Aawas Yojna – Urban (PMAY-U), the government has so far sanctioned financial assistance for construction of ~11.3mn houses (by FY21). Of these, about 4.8mn houses have been completed and another ~8mn houses are under various stages of constructions. During 2019 and 2020, PMAY-U generated ~50mn MT cement demand, implying its significance for the cement industry. During 2021/2022, we expect the urban housing program to accelerate, boosting demand.

Urban housing execution in the past five years – under PMAY-U



Source: Industry, HSIE Research

Cement & steel demand generated (cumulative) from urban housing construction under PMAY-U



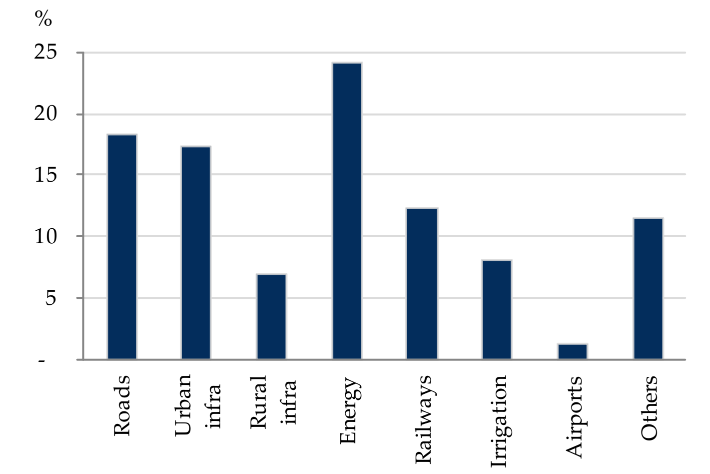
Source: Industry, HSIE Research

National Infrastructure Pipeline – A big fillip for the sector

The Indian Government launched the National Infrastructure Pipeline in Sep'19, thereby laying five year plans for investments of INR 111 tn in infrastructure creation (about 7,300 projects) by 2025. The NIP will be jointly funded by the central government (39%), state government (40%) and the private sector (21%). About 85% of NIP investment is targeted towards capital creation in energy (24%), urban and rural infra (25%), roads (18%), railways (12%), and irrigation (7%). Even if these projects are implemented to 70-80% levels of the projections, it offers strong demand opportunity for cement sector (both direct and indirect). As per latest status, NIP projects worth INR 44tn (40% of the total investment) are under implementation and another 33% are under conceptualisation stage.

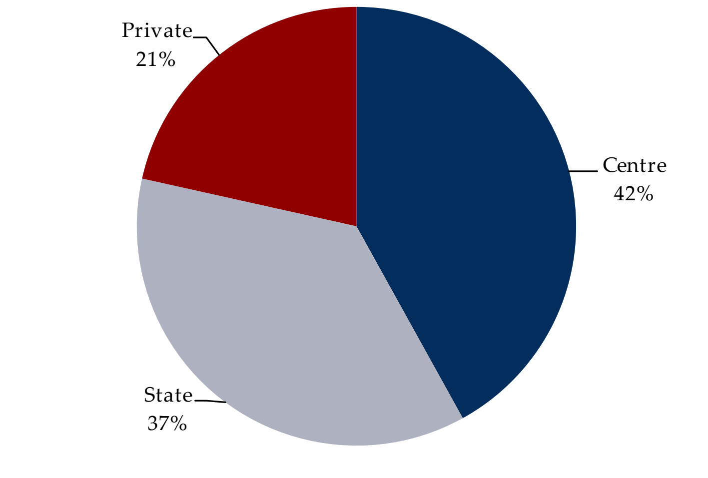
In a recent interview, the road minister Mr Nitin Gadkari also highlighted the pace of road construction has increased to 35km per day and expects to soon achieve 40km per day run rate. He further noted that under Bharatmala project (encompassing 83,677 Km of roads), 13,521 Km highways have been awarded and another 16,500 Km are under planning stage (DPR).

NIP budget (INR 111trn) across various sectors



Source: Industry, HSIE Research

NIP funding mix



Source: Industry, HSIE Research

Real estate sector is picking up riding on low interest rate

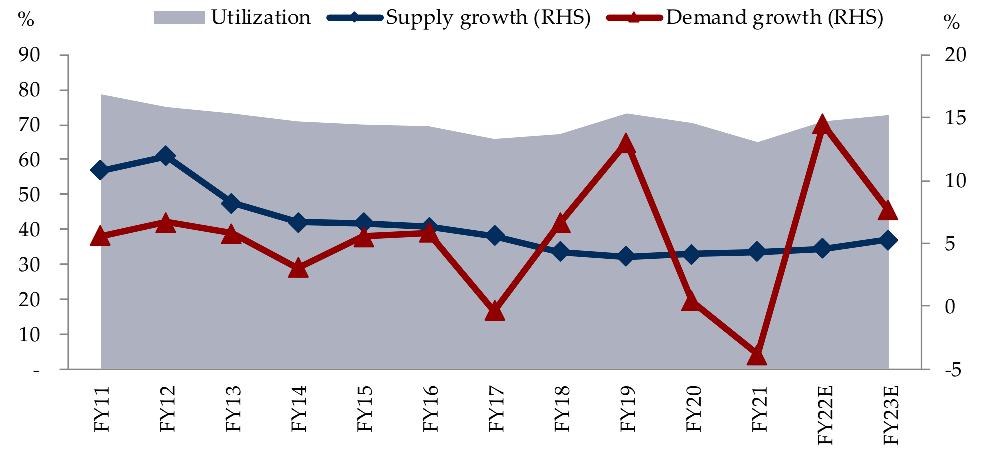
After remaining depressed for the past 4-5years, even real estate sector is seeing a recovery from 2HFY21. Significant reduction in home loan interest rates amid stagnated property prices has boosted affordability and hence sales. Residential demand in the mid-segment is seeing better recovery. Industry veterans opine that if demand trend remains healthy, the real estate sector can take price hikes, thereby passing on the recent inflation in cement and steel prices. These again should firm up cement demand over next few years.

Rural demand triggers

Good consecutive monsoons, increased MSPs and government's increased rural spending (social and infrastructure) are also yielding in better rural/agriculture-based income. This in turn is positive for cement industry.

The benefits of these have been clearly visible in FY21 itself, as cement demand started to recover as soon as the lockdown restrictions were relaxed 2QFY21 onwards. Retail demand firmed up, thereby moderating the impact of slower recovery in non-trade sector (due to delays in labour availability at site). During 3QFY21, cement companies noted that while trade demand continues to grow (and drive overall sales), the non-trade segment is returning towards normalcy with improving labour and funds availability. We expect cement demand in FY21 to decline 4% YoY (mainly on account of 1QFY21). Thus on a low base, we expect demand to rebound 14.5% in FY22E and to normalise to 7.5% growth in FY23E.

We expect demand growth to accelerate on a low base of FY21



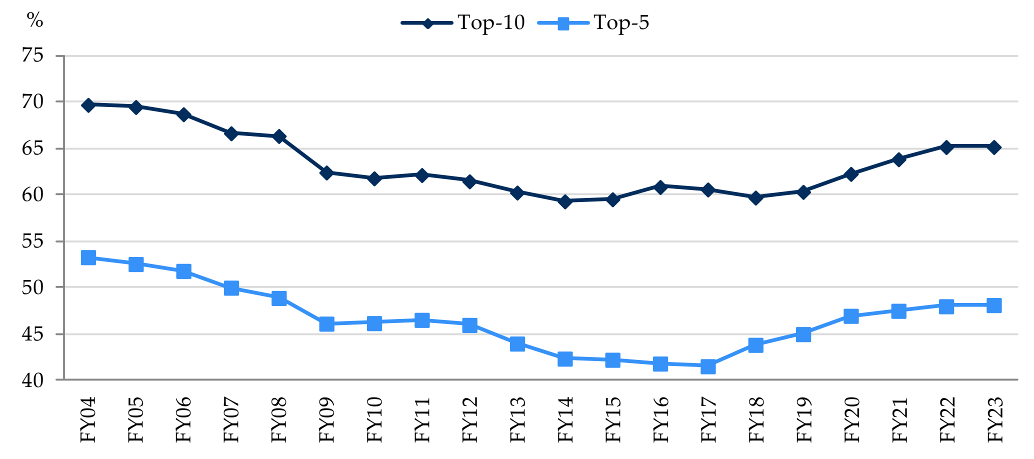
Source: Industry, HSIE Research

Industry consolidation to continue

The industry consolidation trend, which picked up in FY16, should continue over the next 4-5 years. While during FY15-20, mergers and acquisitions drove up the capacity share of top-5/top-10 companies in the industry, over the next five years, the faster pace of organic expansions by major players is what will accelerate consolidation.

The Indian industry suffered from continued fragmentation during FY07-15 as the share of the top-5/top-10 players fell from 50/67% in FY07 to 42/59% during FY14-15. This happened as the industry attracted faster capacity additions from smaller players. However, over the past five years, the trend reversed and multiple M&As drove up consolidation. Thus, in FY20, the capacity share of top-5/top-10 companies recovered to 47/62% respectively (to their 12-year high levels).

Capacity share of major players on a rise

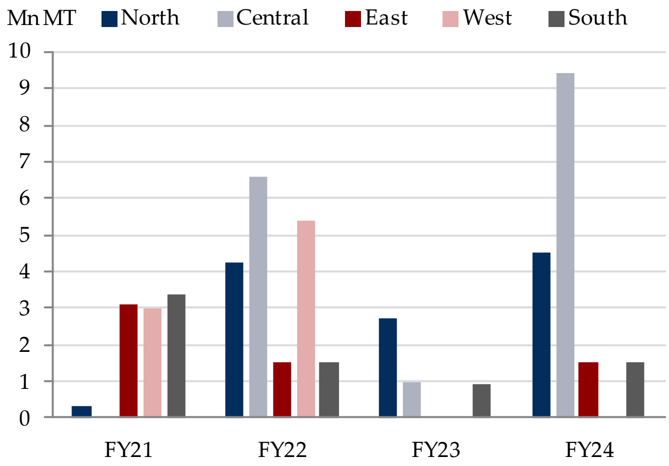


Source: Industry, HSIE Research

We expect the consolidation trend to firm up over the next 4-5 years. This time, it is being led by the faster pace of organic expansion by the major players. The top-5/10 players account for a large part of the incremental capacity additions over the next 4-5 years. On the basis of announced expansion plans (greenfield and brownfield), UltraTech's capacity will increase by 18% by end FY23/early FY24 (over FY20 base). During FY20-23E, we estimate capacities of Dalmia, ACC and Shree Cement to increase by 44%, 20%, and 15% respectively.

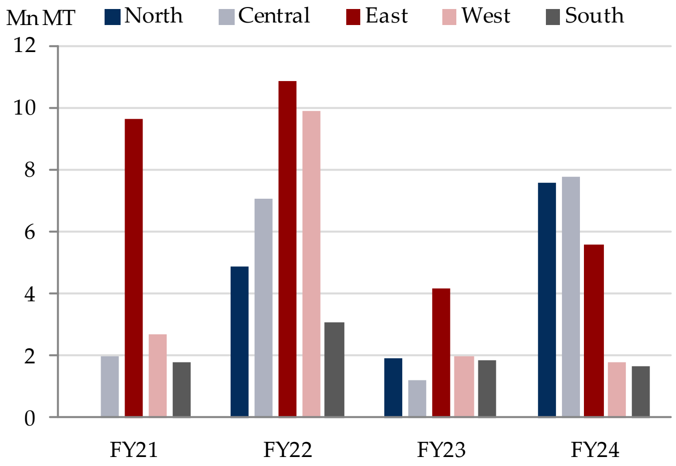
Similarly, the capacity of Nuvoco will increase by 69% in the same period (mainly on account of acquisition of Emami Cement w.e.f. FY21). Among the other top-10 companies, we see Birla Corp and Chettinad increasing their capacities by 33% and 27% respectively. Thus, by FY23, we expect capacity share of top-5/ top-10 companies in India to rise to 48/65% respectively – the highest since FY09.

Clinker capacity additions planned during FY21-24



Source: Industry, HSIE Research

Cement capacity additions planned during FY21-24



Source: Industry, HSIE Research

Our analysis of environmental clearance pipelines and pre-feasibility reports by various cement companies suggest that the major players to lead incremental capacity additions even beyond FY23E. This should further consolidate the industry.

UltraTech has a slew of expansion projects – green-field and brown-field – under planning/ approval phases across India (yet to be announced). These should be getting commissioned FY24 onwards.

Shree Cement has recently announced that it plans to increase its India capacity to ~57mn MT by FY24/25E (vs 46mn MT in FY23). We note that these expansions to be brownfield expansions in Rajasthan, Chhattisgarh, Karnataka, and Maharashtra and Greenfield expansions across Gujarat, Odisha and West Bengal. These will also make Shree Cement a true pan-India player.

Similarly, Dalmia has also expressed its intent to expand its total capacity to 50-55mn MT over the next 3-5 years (against 38mn MT by FY23E). As per our analysis, these will be spread across its existing locations in south and across newer locations in Chhattisgarh, Madhya Pradesh and Rajasthan.

In its recently concluded AGM in April'21, Ambuja has noted its intent to add 15mn MT capacity (beyond its Rajasthan expansion in 3QCY21) in medium term – which will include (1) brown-field expansions in Maharashtra and Chhattisgarh, and (2) significant debottlenecking across all its plants. We notice even ACC is planning to add an integrated plant in Chhattisgarh (in addition to its on-going expansion plans in central region). We expect both ACC and Ambuja to add these capacities during FY24-26E period.

During FY24E, JK Cement and JK Lakshmi will be adding capacities in central and north markets respectively. Thus, we believe that industry consolidation will continue giving support to industry's pricing power.

Companies' environment focus on a rise, cost economics supportive

Going ahead, cement companies' profits are expected to gain from their successful efforts to reduce clinker factor at new as well as existing factories. Even on green power consumption front, while the industry has already accelerated WHRS commissioning, we note that newer WHRS are up to 50% more productive, thereby further boosting their contribution to profitability. These two factors will also accelerate the industry's drive towards carbon emission cuts.

Lower clinker factor = lower operating costs + lower carbon emissions

Over the past 15 years, the Indian cement industry increased the share of blended cement production from 55% to 70% currently, thereby becoming a major recycler of industrial wastes like fly ash and slag. This has been a win-win for both cement companies (low-cost replacement of non-renewal limestone, lower clinkerisation cost) and for power/steel companies (easy disposal of their wastes and also earning in the process). In additions to lowering operating costs, it also supported the cement industry's efforts in reduction carbon dioxide emission per MT of cement. The thermal power plants are also benefitting as they now need lesser landfills for safe disposable of fly ash.

Over the past few years, cement companies have been successful to increase the intensity of fly ash/slag consumption per MT of cement from 25/55% to up to 35/65% respectively at various plants. This again is helping cement companies both save production cost as well as reduce their carbon intensity. We expect new capacities to be fully equipped to produce cement with the elevated share of flyash/slag.

In the exhibit below, we have explained the incremental cost savings being achieved by increasing the share of fly ash and slag in blended cement. As against normal PPC production (with 25% fly ash in the final cement), companies are able to reduce their production cost by ~INR 100/MT, by achieving 35% blending. Similarly, in case of PSC, companies can incrementally save up to ~INR 70/MT by increasing the slag ratio from 55% to 65%. As clinker capacity is more capital intensive than grinding unit, this also aids in the improving the pay-back for the integrated cement plant.

Incremental savings being achieved through lowering in clinker factor

	Rate (INR/MT)	OPC		PPC normal		PPC high blended		PSC normal		PPC high blended	
		Mix	Cost (INR/MT)	Mix	Cost (INR/MT)	Mix	Cost (INR/MT)	Mix	Cost (INR/MT)	Mix	Cost (INR/MT)
Clinker	1,700	95%	1,615	70%	1,190	60%	1,020	40%	680	30%	510
Fly ash	700	0%	-	25%	175	35%	245				
Slag	1,000							55%	550	65%	650
Gypsum	2,500	5%	125	5%	125	5%	125	5%	125	5%	125
		100%	**1,740**	**100%**	**1,490**	**100%**	**1,390**	**100%**	**1,355**	**100%**	**1,285**
Incremental savings (INR/MT)							**100**				**70**
Clinker factor (x)			**0.95**		**0.70**		**0.60**		**0.40**		**0.30**

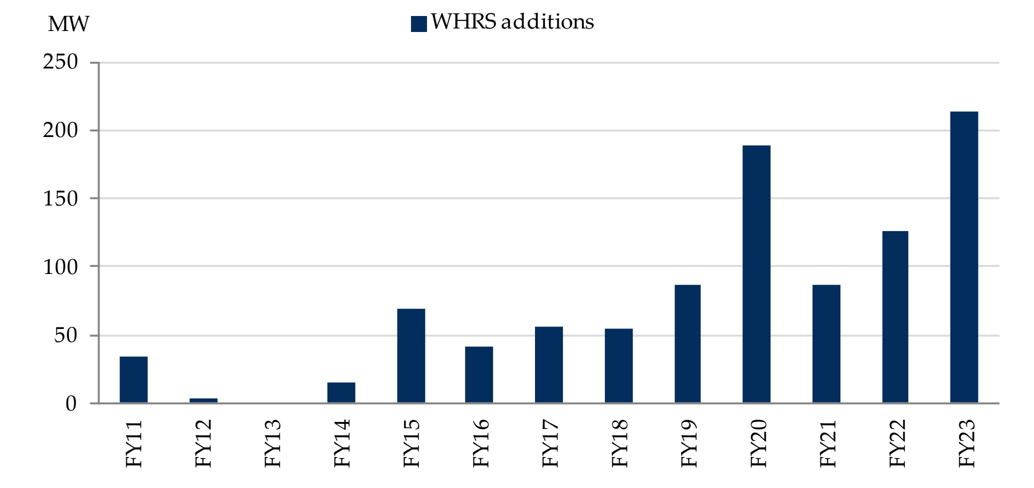
Source: Industry, HSIE Research

Newer WHRS are more productive, boosting companies' profitability

In our earlier thematic **(link to report),** we had discussed in detail about cement companies adopting WHRS in a big way, in the past 10 years. From 80MW in FY10, installed WHRS capacity soared to 630MW in FY20. Robust payback period (3-4 years) accelerated the adoption of WHRS by the Indian cement industry. This has also helped the industry reduce fuel consumption and hence lower carbon dioxide emission intensity.

The usual run-rate for WHRS addition stands at ~5MW of WHRS per MT of clinker capacity. However, we note that recent WHRS additions announcements by some of the companies (Shree, UltraTech, etc.), are more productive at about of 7-8MW per MT of installed clinker capacity. This implies that companies will be able to recycle a larger part of the waste heat from the pre-heater and cooling units. Subsequently, it will lead to the WHRS meeting up to 50% of the plant's electricity requirements (vs 30-35% earlier). We expect this to become a trend across the industry, which will further help companies reduce their carbon footprint and operating costs.

WHRS adoptions continues by the industry; increased productivity will make it more attractive



Source: Industry, HSIE Research

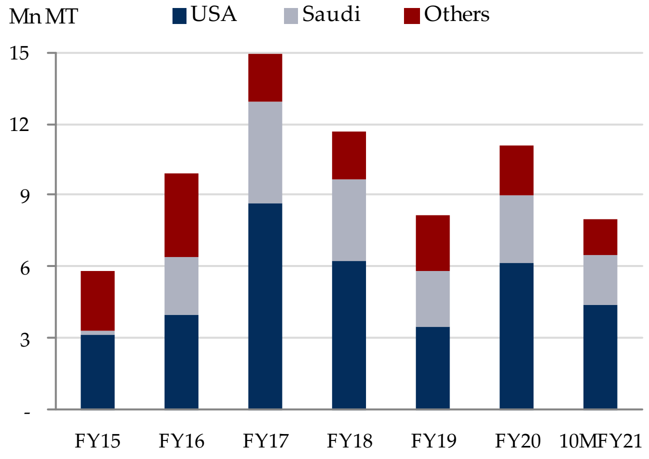
Business agility reducing the input cost volatility

While fuel and diesel prices continue to remain volatile, we note that the industry is working on various fronts to minimise the impact on profitability. Over the past few years, the industry's dependence on thermal coal (domestic and South Africa) has reduced as it initially latched on to pet coke and later also added US coal to its fuel basket. This has increased its capability to switch between its fuel sources to optimise energy costs. We also highlight the agility shown by the industry during FY21, in terms of its managing of other expenses (mostly fixed costs). Both these factors should increase our confidence about the industry's capability to reduce total cost volatility in an environment where demand forecasts are less predictable and fuel prices are not under its control.

Multiple fuel capabilities

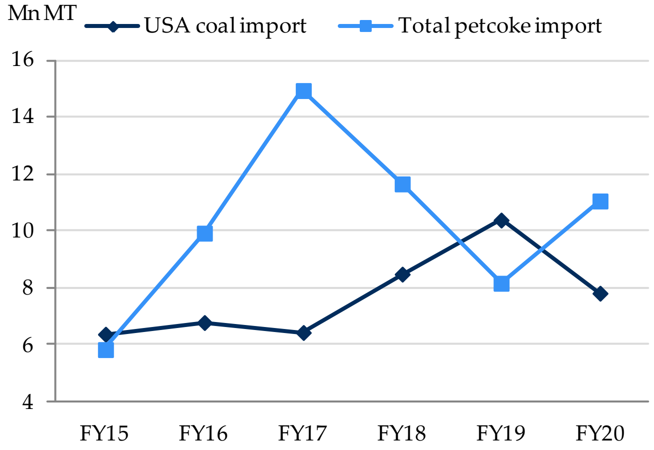
The Indian cement industry embraced pet coke as a major kiln fuel about 5-6 years back, which helped the industry reduce the impact of soaring coal price. Using pet coke in the kiln served dual purpose – (1) it reduced logistics and handling cost owing to higher calorific value per MT of fuel (vs thermal coal), and (2) higher sulphur content in the fuel helped companies enhance the quality of the raw materials and, hence, even low-grade limestone usage increased. This, in turn, increased the life of high-grade limestone reserves. Over the years, most cement companies augmented their capabilities to use both coal as well as pet coke in their kilns. This helped the industry take advantage of cost arbitrage between pet coke and thermal coal. This has been most beneficial for factories situated closer to ports vs those located in the hinterland (example - Satna, Chandapur clusters). Further, some of the cement majors have also been importing thermal coal from the USA as an additional alternative to domestic coal and thermal coal imports from South Africa and Indonesia. We expect the industry will continue to explore all these avenues to optimise their fuel cost on per calorific value basis.

India imports most of its petcoke from the USA and Saudi Arabia



Source: Industry, HSIE Research

Cement companies have alternated between petcoke and US coal to optimize costs

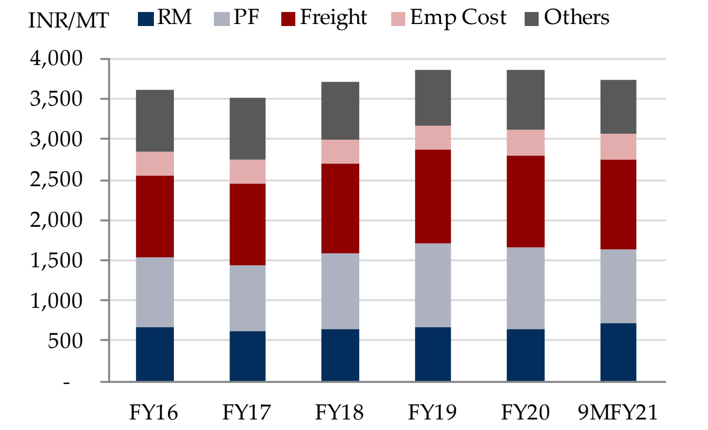


Source: Industry, HSIE Research

Fixed cost management

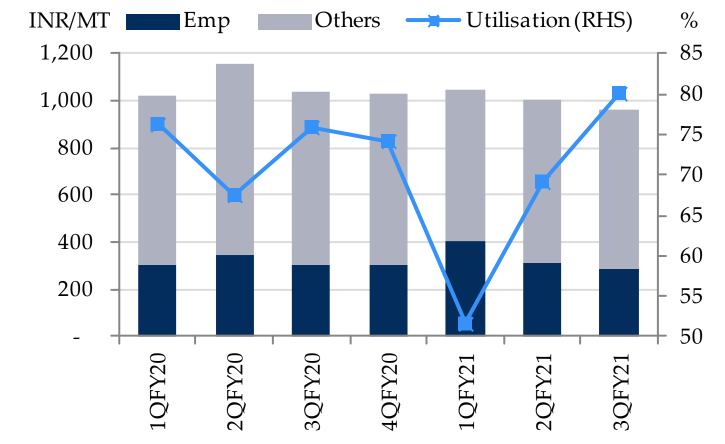
For cement companies, a large chunk of the operating expenses is variable in nature – raw material, fuel, electricity and freight– which account for 70-75% of companies total operating costs. The remaining employee and other expenses account for the remaining 25-30% of operating costs. These costs are generally perceived to be largely fixed in nature. Thus, when COVID lockdown led to a sharp fall in sales and utilisation during 1HFY21, it appeared that lower utilisation-led surge in unitary fixed costs will bloat operating costs and hit margins hard. However, <u>the industry exhibited elasticity and could reduce discretionary expenses – advertisement/ promotional expenses, travel costs and repair/maintenance costs. Thus, despite lower utilisation, companies brought down their unitary fixed costs below pre-COVD levels.</u> This more than offset the negative impact of unitary employee costs, boosting margins. The COVID period has allowed companies to look into their cost structures in a totally new light and they are hopeful that some of the cost savings will continue even as sales have rebound to above pre-COVID levels.

Operating cost trends for the industry



Source: Industry, HSIE Research

Despite lower utilisation, the industry managed its fixed costs (employee + other exp) well during FY21E



Source: Industry, HSIE Research

A year since COVID – industry has grown stronger; margins at an all-time high

The past one year has been a roller coaster ride for the industry as well as its earnings forecast, ever since COVID lockdown started in late Mar'20. During 1QFY21, companies as well as analyst community forecasted a doomed year FY21, with volume decline expectations of up to 20% YoY. However, companies took sharp price hikes and implemented robust fixed cost controls in 1QFY21, to combat the impact of sales loss. As rural demand sprung back Jun'20 onwards, the industry could completely offset the impact of volume loss during 1HFY21 on profits. 1HFY21 EBITDA for the industry turned flattish YoY despite ~25% YoY decline in 1QFY21. The industry posted robust ~40% YoY EBITDA growth during 2Q/3QFY21, as even volume growth turned positive. With 4QFY21E earnings also expected to be healthy (we estimate 35% EBITDA rebound YoY), cement companies' current earnings estimates are higher than our estimates back in Mar-20E (pre-COVID).

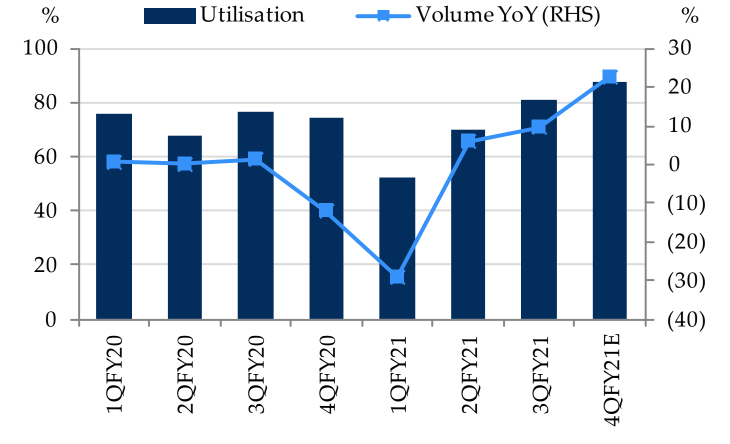
Our current EBITDA estimates for FY21/22E are better than our pre-COVID estimates, despite factoring in lower volumes

Current Estimates	Sales Vol (mn MT)		Variation from pre-COVID est		EBITDA (INR/MT)		Variation from pre-COVID est		EBITDA (INR mn)		Variation from pre-COVID est	
Companies	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
UltraTech Cem	85.5	92.7	-8%	-7%	1,329	1,239	12%	5%	113,701	114,827	3%	-3%
Shree Cement	26.5	29.0	-5%	-6%	1,517	1,489	3%	4%	40,656	44,028	-3%	-2%
Ambuja Cem	22.7	25.5	-8%	-3%	1,167	1,193	17%	18%	26,466	30,394	8%	14%
ACC	25.5	30.4	-13%	1%	949	854	23%	5%	24,840	27,693	2%	6%
Dalmia Bharat	20.7	23.8	-5%	-5%	1,272	1,073	27%	10%	26,388	25,498	20%	5%
Ramco Cem	9.7	11.7	-24%	-21%	1,534	1,334	45%	22%	15,261	16,039	8%	-4%
JK Cement	12.0	13.0	1%	-3%	1,329	1,386	10%	14%	15,951	17,994	11%	11%
Star Cement	2.8	3.7	-15%	3%	1,193	1,306	-21%	-16%	3,336	4,850	-33%	-13%
JK Lakshmi Cem	9.8	10.7	-7%	-1%	726	695	-1%	-7%	7,082	7,446	-9%	-8%
Orient Cem	4.9	5.8	-22%	-14%	975	727	48%	6%	4,813	4,231	16%	-9%
Deccan Cem	1.8	1.9	9%	9%	1,022	715	54%	0%	1,860	1,392	68%	8%

Source: Company, HSIE Research (We have tabulated the data for companies under active coverage in Mar'20)

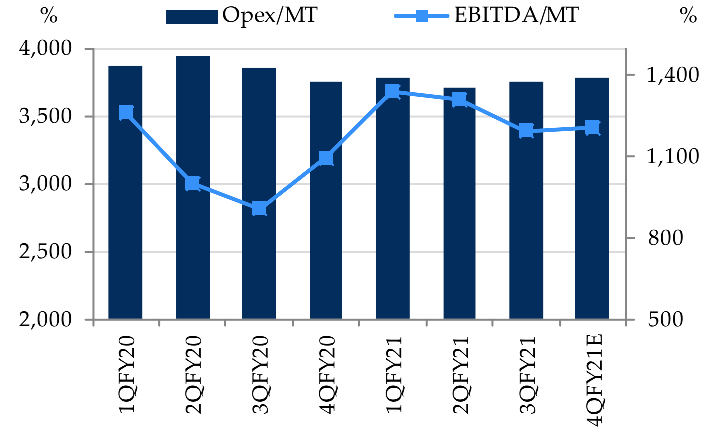
As against our pre-COVID (i.e., March'20) forecasts for FY21E, we currently expect the industry to deliver 9% lower volumes in FY21E (hit by COVID-led losses in 1HFY21). However, our current aggregate FY21E EBITDA for the coverage universe is 4% higher vs our pre-COVID forecast. Similarly, our current FY22E EBITDA aggregate estimate for those stocks is almost similar to our pre-COVID forecasts, despite the fact that we have trimmed our volume forecasts (vs pre-COVD) by ~6%.

The industry posted robust volume growth during 2HFY21E, boosting utilisation



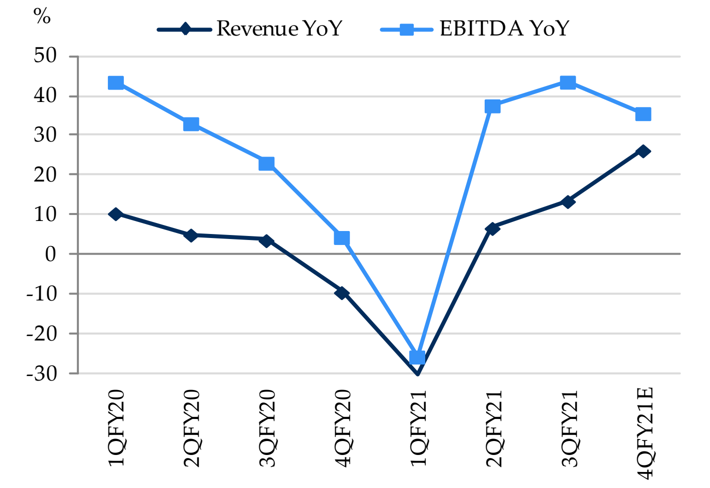
Source: Industry, HSIE Research

Despite lower utilisation and rising fuel prices, industry could keep costs under check



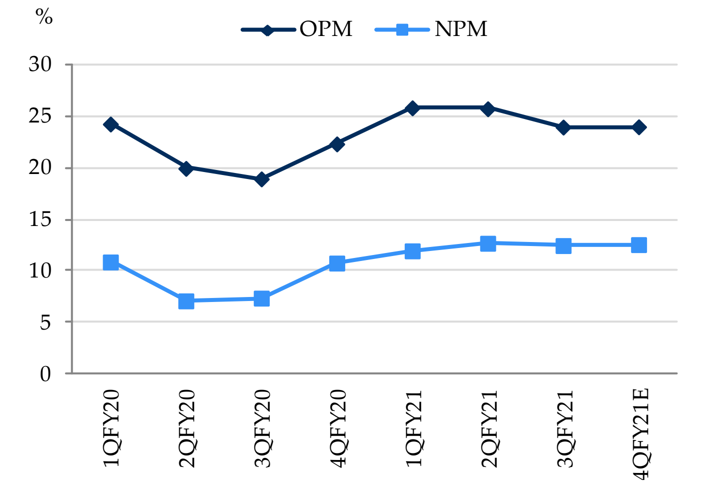
Source: Industry, HSIE Research

Robust pricing and cost control drove sharp revenue and EBITDA uptick 2QFY21 onwards



Source: Industry, HSIE Research

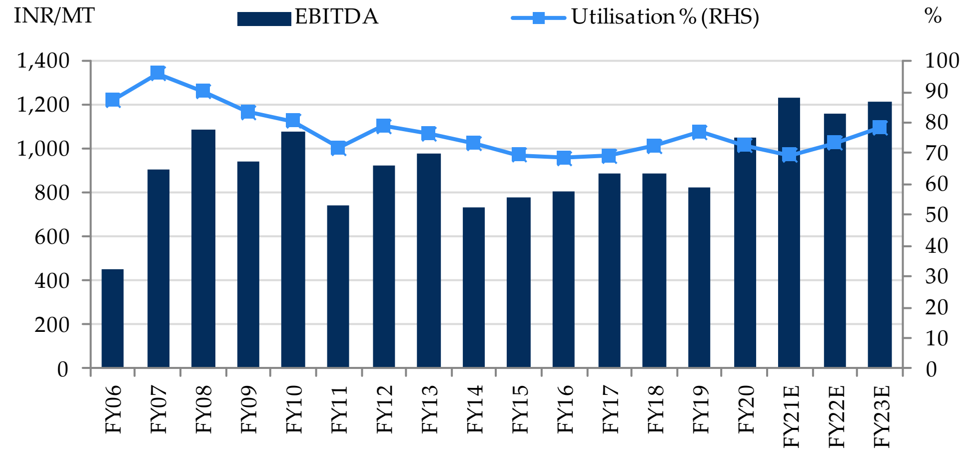
Margins remained stable and strong despite COVID lockdown



Source: Industry, HSIE Research

Thus, riding on robust rural demand 2QFY21 onwards, recovery in non-trade sales in 2HFY21, strong fixed cost controls, and sustenance of large part of cement price hikes, the industry could beat the COVID impact and deliver its all-time high operating margin of ~INR 1240/MT! Our current estimates for FY22E are also higher vs pre-COVID estimates (in Mar'20). This is on account of healthy demand traction and stable pricing, which should largely moderate the impact of surge in fuel prices. During FY23E, we expect margins to expand YoY, driven by industry's improved pricing power and rising utilisation.

Industry's operating margin has scaled a new high in FY21



Source: Industry, HSIE Research

4QFY21E Earnings preview

Utilisation expected to soar to multi-quarter high of 88%

We expect aggregate volumes of 14 cement companies under coverage to increase 11% QoQ, leading to a sharp 23% YoY jump (on a low base as COVID lockdowns had hit sales in 4QFY20). Thus, we estimate industry utilisation to soar to 88% YoY in 4QFY21E – similar to that achieved during 4QFY19. This utilisation is also a multi-year high, owing to both healthy demand and delay in capacity additions.

Robust margin to sustain QoQ

The strong price increase effected in the north/central/west mid-quarter onwards and in the east and south markets early March'21 onwards should drive up NSR 1% QoQ in 4QFY21E. Thus, the average NSR for our coverage universe is expected to buoy 3% YoY (vs 4% YoY in 3QFY21). We expect input cost rate to surge 9/3% YoY/QoQ, driven by soaring fuel prices. We expect even unitary freight cost to inch up 1/3% YoY/QoQ, on higher diesel prices. However, we expect unitary fixed costs to further reduce 5% QoQ (on operating leverage gains). This along with continued fixed cost controls should lead to unitary fixed costs falling 10% YoY. Thus, the average unitary opex for our coverage universe is expected to rise 1/1% YoY/QoQ. Subsequently, we estimate unitary EBITDA to soar 10/1% YoY/QoQ to INR 1,205/MT in 4QFY21E.

Aggregate EBITDA to increase 12% QoQ/ 35% YoY

Riding on robust volume growth and stable operating margin, we estimate 4QFY21 aggregate EBITDA for our coverage universe to soar 12/35% QoQ/YoY. Similarly, we estimate aggregate APAT to rise 13/48% QoQ/YoY.

4QFY21E estimates

Y/E March (INR mn)	Net Sales (INR mn)			EBITDA (INR mn)			*EBITDA Margin (%)*			Adj. PAT (INR mn)		
	Mar-21	*YoY (%)*	*QoQ (%)*	Mar-21	*YoY (%)*	*QoQ (%)*	*Mar-21*	*YoY (pp)*	*QoQ (pp)*	Mar-21	*YoY (%)*	*QoQ (%)*
ACC ** $	43,760	*25.0*	*5.6*	7,400	*26.2*	*5.6*	*16.9*	*0.2*	*0.0*	4,549	*40.8*	*0.9*
Ambuja **	35,503	*25.6*	*1.0*	8,460	*40.2*	*10.2*	*23.8*	*2.5*	*2.0*	6,346	*59.0*	*27.7*
Birla Corp $	20,043	*18.6*	*12.8*	4,199	*21.8*	*15.9*	*21.0*	*0.6*	*0.6*	1,715	*(11.9)*	*14.7*
Dalmia $	31,998	*28.9*	*12.0*	7,000	*37.8*	*1.3*	*21.9*	*1.4*	*(2.3)*	2,119	*714.9*	*16.4*
Deccan Cem	2,289	*84.9*	*10.0*	474	*318.7*	*(3.2)*	*20.7*	*11.6*	*(2.8)*	312	*368.3*	*(5.6)*
Heidelberg Cem	6,455	*26.6*	*8.4*	1,460	*14.7*	*21.5*	*20.7*	*(2.4)*	*2.4*	767	*15.7*	*20.6*
JK Cement^^ $	21,476	*38.9*	*17.2*	5,099	*44.8*	*13.2*	*23.7*	*1.0*	*(0.8)*	2,674	*72.6*	*21.9*
JK Lakshmi	13,543	*27.6*	*13.5*	2,116	*4.8*	*10.3*	*15.6*	*(3.4)*	*(0.5)*	921	*(8.6)*	*(10.0)*
Orient Cem	6,772	*3.5*	*12.0*	1,400	*12.3*	*2.4*	*20.7*	*1.6*	*(1.9)*	564	*28.1*	*4.7*
Ramco Cem	16,386	*17.9*	*22.4*	4,769	*70.8*	*20.1*	*29.1*	*9.0*	*(0.5)*	2,525	*72.8*	*25.4*
Sagar Cem $	4,320	*42.3*	*18.8*	1,065	*138.6*	*2.0*	*24.7*	*9.9*	*(4.1)*	488	*4,032.1*	*(1.7)*
Shree Cement #	38,540	*19.8*	*16.5*	12,892	*19.5*	*18.4*	*33.5*	*(0.1)*	*0.5*	6,913	*17.5*	*10.4*
Star Cem $	5,588	*1.7*	*32.0*	1,109	*(11.0)*	*32.1*	*19.9*	*(2.8)*	*0.0*	763	*(11.1)*	*43.9*
UltraTech Cem $	139,795	*30.1*	*14.1*	35,229	*44.2*	*13.9*	*25.2*	*2.5*	*(0.1)*	17,849	*57.8*	*12.6*
Total	**386,468**	***26.3***	***12.3***	**92,673**	***35.7***	***12.5***	***24.0***	***1.7***	***0.0***	**48,505**	***48.4***	***13.7***

Source: Company, HSIE Research, $ - Consol numbers, For ACC/Ambuja, estimates to pertains to 1QCY21E

4QFY21E operational estimates

Y/E March	Sales Volume (mn MT)			NSR (INR/MT)			EBITDA (INR/MT)			Opex (INR/MT)		
	Mar-21	*YoY (%)*	*QoQ (%)*	Mar-21	*YoY (%)*	*QoQ (%)*	Mar-21	*YoY (%)*	*QoQ (%)*	Mar-21	*YoY (%)*	*QoQ (%)*
ACC ** $	7.9	*21.1*	*3.0*	5,020	*5.8*	*1.0*	875	*5.3*	*3.6*	4,145	*5.9*	*0.5*
Ambuja **	7.1	*22.2*	-	5,036	*2.8*	*1.0*	1,200	*14.8*	*10.2*	3,836	*(0.5)*	*(1.6)*
Birla Corp $	4.0	*21.2*	*12.7*	4,812	*(1.5)*	*1.0*	1,030	*0.1*	*3.2*	3,783	*(1.9)*	*0.4*
Dalmia $	6.5	*25.6*	*12.0*	4,926	*2.6*	-	1,078	*9.7*	*(9.6)*	3,848	*0.7*	*3.0*
Deccan Cem	0.6	*62.1*	*10.0*	4,080	*14.1*	-	844	*158.3*	*(12.0)*	3,236	*(0.4)*	*3.7*
Heidelberg Cem	1.4	*25.0*	*7.4*	4,738	*1.3*	*1.0*	1,072	*(8.3)*	*13.1*	3,666	*4.5*	*(2.1)*
JK Cement^^ $	4.0	*43.7*	*21.6*	5,416	*(3.3)*	*(3.7)*	1,286	*0.8*	*(6.9)*	4,130	*(4.5)*	*(2.6)*
JK Lakshmi	3.0	*22.9*	*12.4*	4,470	*3.8*	*1.0*	699	*(14.8)*	*(1.9)*	3,772	*8.2*	*1.5*
Orient Cem	1.5	*(3.4)*	*12.0*	4,449	*7.1*	-	920	*16.2*	*(8.5)*	3,529	*4.9*	*2.5*
Ramco Cem	3.2	*7.9*	*21.0*	5,167	*9.3*	*1.5*	1,512	*58.3*	*0.3*	3,655	*(3.1)*	*2.0*
Sagar Cem $	1.0	*23.4*	*20.0*	4,184	*15.3*	*(1.0)*	1,031	*93.3*	*(15.0)*	3,152	*1.9*	*4.6*
Shree Cement #	8.2	*18.3*	*14.0*	4,496	*(2.3)*	*1.5*	1,544	*(1.2)*	*2.1*	2,953	*(2.8)*	*1.2*
Star Cem $	0.9	*5.9*	*33.8*	6,045	*1.9*	*1.5*	1,200	*(15.9)*	*(1.3)*	4,845	*7.5*	*2.2*
UltraTech Cem $	27.0	*25.8*	*13.0*	5,183	*3.4*	*1.0*	1,306	*14.6*	*0.8*	3,877	*0.1*	*1.1*
Total	**76.2**	***22.8***	***11.4***	**4,987**	***2.9***	***0.7***	**1,206**	***10.2***	***1.0***	**3,781**	***0.8***	***0.7***

Source: Company, HSIE Research, $ - Consol numbers, For ACC/Ambuja, estimates to pertains to 1QCY21E

Estimates revision summary

For FY21E, we have increased our EBITDA forecasts for UltraTech, Shree, Ramco, JK Cements, Birla Corp, Heidelberg, JK Lakshmi Cement and Deccan by 3-10%, owing to better-than-estimated price increase effected since mid-Feb'21 and continued healthy demand. Similarly, we raise our FY22E EBITDA estimates for JK Lakshmi, JK Cement and Deccan Cement by 8/3/4% respectively, factoring in better volumes. We also upgrade our EBITDA estimates for FY23E by 2-6% for UltraTech, Shree, Ambuja, Ramco, JK Cements, JK Lakshmi and Deccan Cement, as we have inched up our volume estimates for these companies by 1-6% respectively.

Estimates revision summary

	Sales Vol (mn MT)			Vol chg. (%)			Net Sales (INR bn)			Net sales chg. (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech $	85.5	92.7	100.3	4.4	2.5	2.9	443.1	482.5	532.6	4.4	2.5	3.9
Shree Cem	26.5	29.0	32.9	2.0	1.9	1.9	124.6	137.0	159.4	1.9	0.9	0.9
Ambuja Cem	22.7	25.5	27.8	-	0.9	0.9	113.7	128.9	143.2	-	0.4	0.9
ACC $	25.5	30.4	32.5	-	-	-	137.9	168.2	182.0	-	1.1	0.6
Dalmia Bharat $	20.7	23.8	26.5	-	-	-	103.5	115.0	128.4	-	-	-
Ramco Cem	9.7	11.7	13.7	(1.1)	(1.1)	0.6	51.8	60.3	71.7	1.6	(1.4)	(0.2)
JK Cement $	12.0	13.0	14.8	5.2	2.5	2.5	65.7	73.0	85.0	4.8	2.4	2.4
Birla Corp $	13.4	15.4	19.2	4.7	2.6	2.2	67.4	73.6	86.3	4.2	1.6	1.3
Heidelberg	4.7	5.4	5.8	2.2	0.4	0.4	21.6	25.2	27.4	2.2	0.4	0.4
Star Cem $	2.8	3.7	4.3	-	-	-	16.9	21.6	24.5	-	-	-
JK Lakshmi	9.8	10.7	11.4	(0.4)	6.6	5.6	43.0	47.3	50.7	2.8	7.7	5.9
Orient Cem	4.9	5.8	6.3	-	-	-	22.7	25.6	28.2	-	-	-
Sagar Cem $												
Deccan Cem	1.8	1.9	2.1	-	-	-	7.7	7.7	8.3	0.7	0.7	0.7

Source: Company, HSIE Research, $ - Consol numbers, For ACC and Ambuja, the financial year is CY20/21E/22E resp

	EBITDA (INR bn)			EBITDA chg. (%)			APAT (INR bn)			APAT chg. (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech $	113.70	114.83	131.89	3.6	(0.6)	6.3	53.69	53.59	68.33	5.1	(0.8)	8.3
Shree Cem	40.66	44.03	52.79	3.9	0.3	2.5	22.11	24.28	29.22	5.5	0.5	3.5
Ambuja Cem	26.47	30.39	34.35	(0.0)	(1.1)	3.1	17.90	20.36	23.11	(0.0)	(1.2)	6.9
ACC $	24.84	27.69	31.23	-	0.8	0.4	14.09	16.94	19.49	-	11.1	10.6
Ramco Cem	26.39	25.50	28.57	-	-	-	7.28	5.51	7.65	-	-	-
Dalmia Bharat $	15.26	16.04	20.03	8.7	(0.3)	1.9	8.14	7.70	10.77	12.3	(0.5)	2.5
JK Cement $	15.95	17.99	21.42	6.4	3.3	3.2	7.15	8.45	11.08	9.8	4.8	4.2
Birla Corp $	13.97	14.73	17.28	9.5	(0.2)	(0.2)	5.25	4.96	5.96	17.7	(0.3)	(0.3)
Heidelberg	5.18	6.30	6.82	4.3	0.8	0.8	2.52	3.40	3.56	5.9	1.0	1.0
Star Cem $	3.34	4.85	5.79	-	-	-	2.21	3.41	4.06	-	-	-
JK Lakshmi	7.08	7.45	8.30	7.2	7.8	2.1	2.87	3.09	3.66	12.6	18.5	27.0
Orient Cem	4.81	4.23	4.81	-	-	-	1.55	1.29	1.65	-	-	-
Sagar Cem $												
Deccan Cem	1.86	1.39	1.46	3.0	4.1	4.2	1.21	0.87	0.87	3.4	4.9	5.2

Source: Company, HSIE Research, $ - Consol numbers, For ACC and Ambuja, the financial year is CY20/21E/22E resp

Operating assumptions summary

On a low/muted base of FY21, we estimate strong volume growth for companies in FY22E. However, we estimate operating margin to cool off ~INR 50-100 per MT, owing to the impact of soaring fuel prices. Thus, we estimate average unitary EBITDA for our coverage universe to moderate 7% YoY in FY22E to ~INR 1,160/MT. During FY23E, we expect margin to again rebound to ~INR 1,215/MT (+5%) on rising utilisation and cost stabilisation.

Operational assumptions/estimates for coverage universe

	Sales Vol (mn MT)			Sales Vol YoY (%)			NSR (INR/MT)			EBITDA (INR/MT)			Opex (INR/MT)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech $	85.5	92.7	100.3	*3.7*	*8.3*	*8.2*	5,180	5,206	5,310	1,329	1,239	1,315	3,851	3,967	3,995
Shree Cem	26.5	29.0	32.9	*6.3*	*9.2*	*13.7*	4,494	4,569	4,693	1,517	1,489	1,575	3,001	3,079	3,118
Ambuja Cem	22.7	25.5	27.8	*(5.4)*	*12.4*	*9.0*	5,016	5,060	5,156	1,167	1,193	1,237	3,936	3,972	4,035
ACC $	25.5	30.4	32.5	*(11.6)*	*19.1*	*7.0*	5,023	5,034	5,081	949	854	901	4,074	4,180	4,180
Ramco Cem	20.7	23.8	26.5	*7.5*	*14.5*	*11.6*	4,992	4,842	4,842	1,272	1,073	1,078	3,719	3,769	3,764
Dalmia Bharat $	9.7	11.7	13.7	*(13.0)*	*20.0*	*17.0*	5,260	5,099	5,194	1,534	1,334	1,433	3,726	3,765	3,761
JK Cement $	12.0	13.0	14.8	*17.2*	*8.2*	*14.0*	5,470	5,623	5,743	1,329	1,386	1,447	4,141	4,237	4,296
Birla Corp $	13.4	15.4	19.2	*(1.8)*	*15.3*	*24.3*	4,830	4,732	4,832	1,033	970	985	3,797	3,762	3,847
Heidelberg	4.7	5.4	5.8	*(0.1)*	*15.0*	*7.0*	4,600	4,669	4,739	1,103	1,165	1,179	3,497	3,504	3,560
Star Cem $	2.8	3.7	4.3	*(5.4)*	*32.8*	*15.0*	5,853	5,770	5,728	1,193	1,306	1,355	4,697	4,473	4,374
JK Lakshmi	9.8	10.7	11.4	*6.2*	*9.9*	*6.0*	4,407	4,415	4,470	726	695	731	3,680	3,720	3,739
Orient Cem	4.9	5.8	6.3	*(15.0)*	*18.0*	*9.0*	4,609	4,402	4,446	975	727	758	3,634	3,675	3,688
Sagar Cem $	3.2	3.9	5.2	*0.7*	*24.7*	*31.7*	4,383	4,120	4,079	1,272	904	876	3,110	3,216	3,203
Deccan Cem	1.8	1.9	2.1	*26.4*	*7.0*	*7.0*	4,250	3,974	4,002	1,022	715	701	3,228	3,259	3,300

Source: Company, HSIE Research, $ - Consol numbers

Peer set valuations and TP revisions

Our target prices have increased for the coverage stocks, as we roll forward valuations to Mar'23E vs Dec'22E earlier, and as we have also increased our earnings estimates for some of them (elaborated on the previous page).

We have also increased valuation multiples for Ambuja Cements to 14x (from 12x earlier) and ACC to 11x (vs 10x earlier) to factor in the increased capex-led growth outlook for the next 3-5 years. We have also increased valuation multiple for JK Cements to 11.5x vs 10.5x as the company continues to surprise positively on both volumes and margin front. We maintain our valuation multiples for the rest.

Owing to sharp run-up in stock prices, we downgrade our recommendation for Shree Cement and Ramco Cements to REDUCE from ADD earlier. We maintain our BUY ratings on the other stocks under coverage.

<u>In this report, we have also initiated coverage on Sagar Cements with a BUY rating and TP of INR 1,082/share.</u>

Top picks – Ambuja and Dalmia Bharat in the large-cap space; Birla Corp, JK Lakshmi and Sagar Cements in mid-cap space.

Rating and target price revision summary

Company	Mcap (INR bn)	CMP (INR/sh)	New Rating	Old Rating	New TP	Old TP	Valuation multiple^	EV/EBITDA (x)			EV/MT (INR bn)		
								FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech Cement	1,882	6,520	BUY	BUY	7,350	6,720	16.0	*17.5*	*17.0*	*14.3*	*16.88*	*15.90*	*14.86*
Shree Cement	1,090	30,199	REDUCE	ADD	27,100	25,550	16.5	*25.6*	*23.5*	*19.4*	*18.3*	*16.1*	*21.22*
Ambuja Cement	608	306	BUY	BUY	358	308	14.0	*17.4*	*14.9*	*12.9*	*15.60*	*14.45*	*14.15*
ACC	356	1,895	BUY	BUY	2,185	1,985	11.0	*11.9*	*10.7*	*10.3*	*8.98*	*8.63*	*8.23*
Dalmia Bharat	274	1,470	BUY	BUY	1,770	1,770	12.0	*11.7*	*11.7*	*10.1*	*10.21*	*8.42*	*7.56*
Ramco Cements	249	1,058	REDUCE	ADD	984	908	12.0	*18.2*	*16.8*	*13.3*	*14.05*	*12.93*	*12.77*
JK Cement	218	2,827	BUY	BUY	3,070	2,545	11.5	*15.2*	*13.4*	*11.1*	*12.39*	*12.38*	*12.18*
Birla Corp	72	930	BUY	BUY	1,451	1,371	8.5	*8.0*	*7.5*	*6.4*	*8.04*	*7.51*	*6.36*
Heidelberg Cem	53	232	BUY	BUY	276	266	8.5	*9.8*	*8.2*	*7.7*	*8.14*	*8.23*	*8.34*
Star Cement	40	98	BUY	BUY	130	125	9.0	*11.8*	*8.2*	*7.0*	*9.14*	*8.05*	*7.62*
JK Lakshmi	48	407	BUY	BUY	520	460	8.0	*8.0*	*7.5*	*6.6*	*4.85*	*4.76*	*3.87*
Orient Cement	20	97	BUY	BUY	121	117	7.0	*6.0*	*6.9*	*6.9*	*3.58*	*3.64*	*4.14*
Sagar Cem $	17	724	BUY	NR	1,082	-	7.0	*6.0*	*6.9*	*5.4*	*4.20*	*2.97*	*2.99*
Deccan Cement	5.8	416	BUY	BUY	555	535	5.5	*2.6*	*4.7*	*6.1*	*2.17*	*2.92*	*3.94*

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY20/21E/22E resp, ^ Target multiples are EV/EBITDA based on Mar'23E

Sagar Cements

On a steady growth path

We initiate coverage on Sagar Cements with a BUY rating and a target price of INR 1,082 (7x its consolidated FY23E EBITDA). We like Sagar for its continued regional capacity/sales expansion, multiple opex reduction exercises, and healthy balance sheet. We estimate the company would deliver consolidated revenue/EBITDA/APAT CAGR of 22/35/85% respectively, driven by strong 18% volume growth and robust EBITDA margin (above INR 850/MT). In our view, healthy OCF generation (during FY21-23E) and equity support from the promoters (during FY19-21E) would keep gearing under check as the company steadily moves towards becoming a 10 mn MT one by FY25E.

- **Strong capacity/sales growth:** Sagar Cements has grown its capacity at 9% CAGR over the past 10 years (to 5.75mn MT in FY20), through organic and inorganic means. By 2QFY22, it is further expected to expand its capacity to 8.25mn MT, as it commissions 1.5mn MT split GU in Odisha and a 1mn MT integrated plant in Madhya Pradesh. Aided by its continued expansion, it has been able to deliver 15% volume CAGR in the past five years. We expect Sagar to deliver 18% volume CAGR riding on its upcoming expansions.
- **Multiple cost levers:** Sagar has increased blended cement production to 40% in FY20 vs 30% five years back and is reducing clinker consumption per MT of blended cement production. It also sources ~20% its electricity from low-cost green power (WHRS+ hydro). Overall, its reliance on grid power has come down to 20% as it has also beefed up its CPP capacity. We estimate these metrics will support margins above INR 850/MT FY22 onwards, even if regional pricing in the south becomes volatile.
- **Healthy balance sheet:** Despite major ongoing expansions, we expect Sagar's gearing to remain under control as the promoters infused INR 2.3bn in equity (at INR 730/share) and as its OCF generation is expected to remain strong during FY21-23E. We expect its net debt/EBITDA to hover around 2x, even as it continues to expand capacity to 10mn MT by FY25E.
- **Initiate coverage with a BUY rating:** We like Sagar for its continued regional capacity/sales expansion, multiple opex reduction exercises, and healthy balance sheet. We initiate coverage on it with a BUY rating and TP of INR 1,082 (7x its consolidated FY23E EBITDA). We value Sagar in line with our valuation multiple for Orient Cement (Sagar's closest comparable in terms of market and size) in the listed space.

Consolidated Financial Summary

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	7,534	8,138	10,381	12,176	11,752	13,821	16,201	21,127
EBITDA	1,231	1,104	1,513	1,494	1,855	4,013	3,556	4,537
APAT	443	-39	263	136	265	1,848	1,275	1,679
AEPS (INR)	25.5	(1.9)	12.9	6.7	11.9	78.6	54.2	71.4
EV / EBITDA (x)	17.3	18.3	14.0	14.6	12.0	6.2	7.0	5.6
EV / MT (INR bn)	5.68	4.69	4.93	3.79	3.88	4.29	3.04	3.06
P/E (x)	38.5	(434.1)	64.8	125.2	64.1	9.2	13.3	10.1
RoE (%)	8.3	(0.6)	3.4	1.7	2.8	16.2	9.7	11.5

Source: Company, HSIE Research

BUY

CMP *(as on 12 Apr 2021)*	INR 724
Target Price	INR 1,082
NIFTY	14,311

KEY STOCK DATA	
Bloomberg code	SGC IN
No. of Shares (mn)	24
MCap (INR bn) / ($ mn)	17/228
6m avg traded value (INR mn)	452
52 Week high / low	INR 829/255

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.4	27.8	126.9
Relative (%)	3.7	9.9	70.8

SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	50.26	50.28
FIs & Local MFs	12.10	11.77
FPIs	2.98	3.24
Public & Others	34.66	34.71
Pledged Shares	-	-

Source : BSE

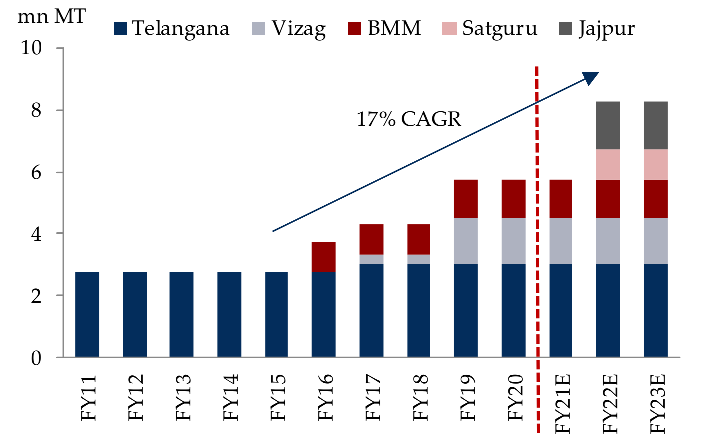
Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Saurabh Dugar
saurabh.dugar@hdfcsec.com
+91-22-6171-7353

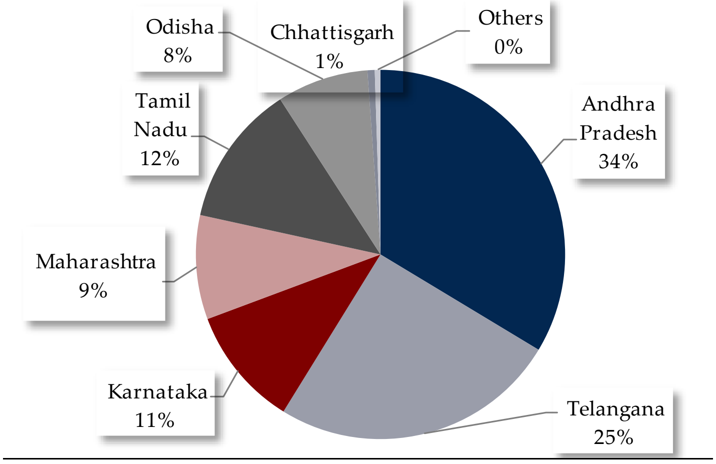
Focus Charts

Sagar has been continuously and prudently expanding capacities; and expects to touch 10mn MT by FY25E



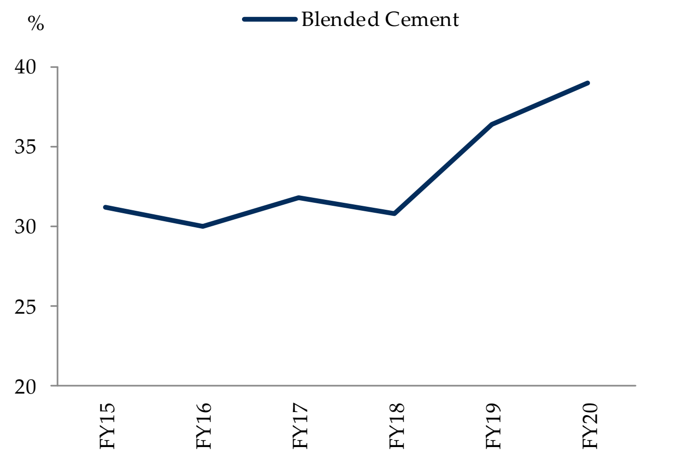
Source: Company, HSIE Research

Sagar's sales is spread across markets in south, west and east regions



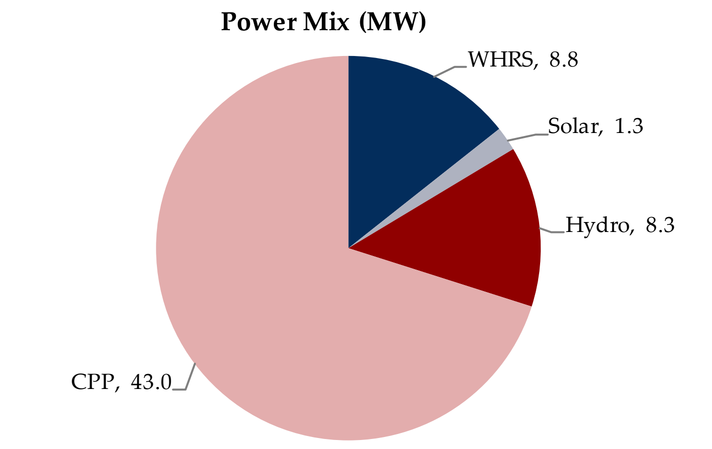
Source: Company, HSIE Research

It has been continuously increasing share of blended cement; new capacities will further increase this ratio



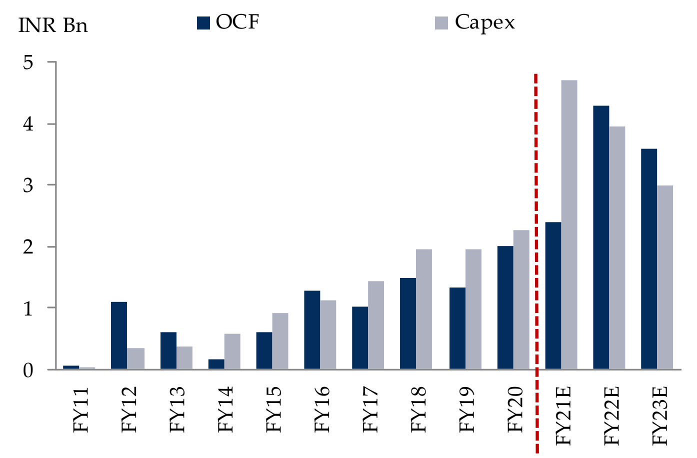
Source: Company, HSIE Research

Sagar has large captive power sourcing (~80%), including low cost, green power share at ~20%



Source: Company, HSIE Research

We estimate Sagar to generate ~INR 10bn of OCF in FY21-23E which should majorly fund its expansions



Source: Company, HSIE Research

Sagar's valuations (EV/EBITDA) is well below its 5-yr mean; despite its improving fundamentals

Source: Company, HSIE Research

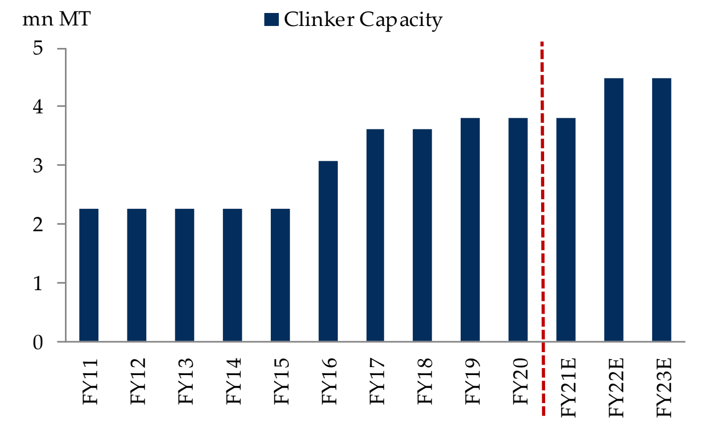
Continuous capacity expansions

In the past 10 years, Sagar Cements has expanded its capacity from 2.4mn MT in FY10 to 5.75mn MT in FY20 (implying 9% capacity CAGR). From being a single location plant in Mattampally, the company has expanded into capacity footprint in southern Andhra through the inorganic acquisition of BMM Cement in FY16 and in coastal Andhra Pradesh through another inorganic acquisition of a grinding unit in FY17.

Sagar increased capacity at its Telangana plant and at the acquired BMM plant (in AP), largely through debottlenecking. At its acquired split GU in Vizag, Sagar increased the capacity from 0.3mn MT (at the time of acquisition) to 1.5mn MT in FY19.

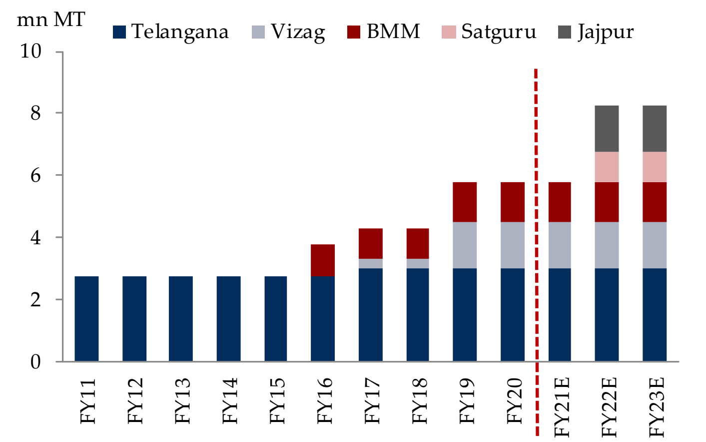
About two years back, Sagar announced that it plans to set up capacities outside of southern region. It is currently working on setting up capacities in Madhya Pradesh (1mn MT integrated plant in Dhar) and Odisha (1.5mn MT split GU in Jajpur). Both these plants are expected to be commissioned by Sep'21. Post the commissioning of these plants, Sagar's installed clinker and cement capacity will increase to 4.5mn MT and 8.25mn MT respectively. Thereafter, it has plans to expand its total capacity to 10mn and beyond by FY25E, as part of its long-term growth vision. These imply that Sagar will continue to grow its capacity at 10%+ CAGR.

Sagar is on track to reach 10mn MT capacity by FY25E…



Source: Company, HSIE Research

…and is currently expanding in east and central India



Source: Company, HSIE Research

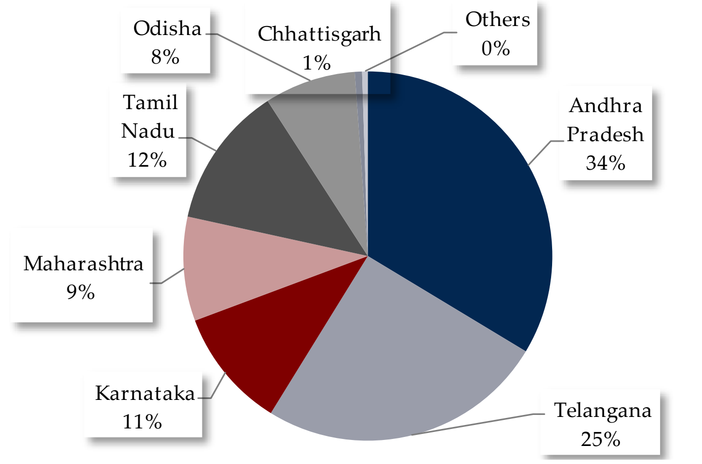
Regional sales mix improving; Share of blended cement on rise

As Sagar expanded its capacity down south and in coastal Andhra, it has been able to diversify its sales exposure outside the Andhra/Telangana markets. In FY20, Sagar sold across south (82%), west (9%) and east regions (9%) as against it being largely an AP/T-based seller a decade ago. The BMM acquisition reduced Sagar's lead distance to markets in Tamil Nadu and Karnataka regions. The Vizag plant is helping Sagar increase its sales in the eastern region – mainly Odisha.

The share of Sagar's cement sales in eastern region expanded from 6% of its total sales in FY15 to 9% in FY20. The upcoming plants will further increase the company's reach in the eastern region and mark its entry in the central regions. Thus, Sagar will have sales presence across all four regions in India.

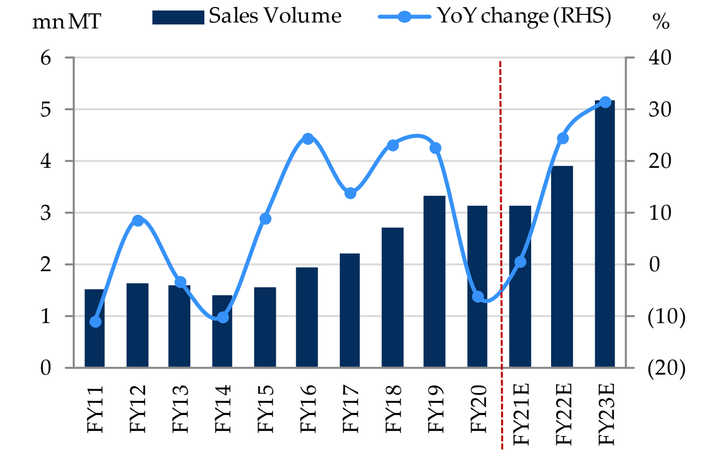
Capacity and distribution expansion across south, west and east drove its 15% volume CAGR during the past five years. This is despite volatile demand in the southern region and sales decline in FY20.

Sagar's sales is spread across markets in south, west and east regions



Source: Company, HSIE Research

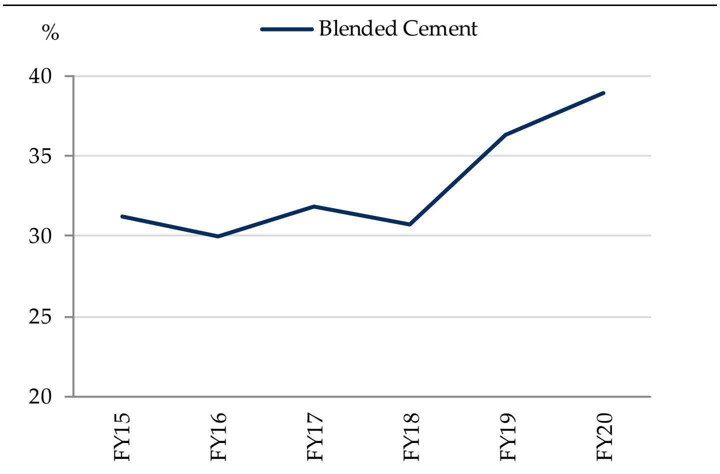
Capacity and market expansions continues to drive its robust volume growth



Source: Company, HSIE Research

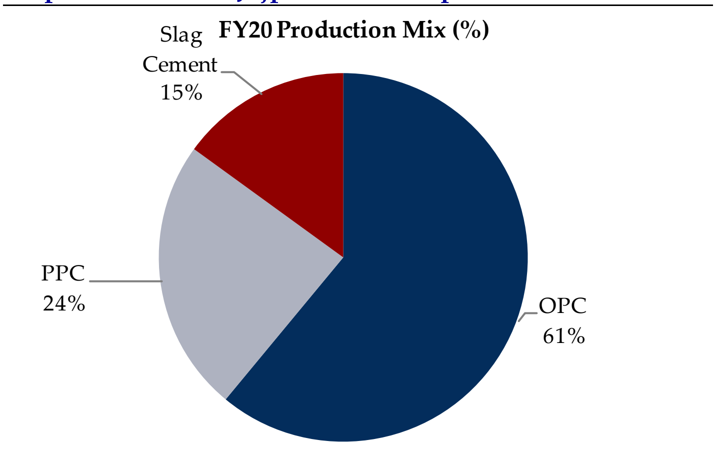
As Sagar has expanded its sales mix, its share of blended cement sales has also gone up. Blended cement comprised ~30% of its production mix in FY15. This expanded to 40% in FY20. Sagar is largely producing slag cement and GGBS at its Vizag grinding unit, which has accelerated its total blended cement production. The ratio will further increase to ~45% by FY23E, as the company ramps up its new expansion in Madhya Pradesh and Odisha. The Odisha plant will largely be producing slag cement, owing to its closer proximity to steel mills. The Madhya Pradesh plant will help increase the share of PPC sales. We estimate slag cement to comprise ~15% of its total production in FY23E.

Sagar is continuously expanding production of blended cement



Source: Company, HSIE Research

Share of blended cement rose to 39% in FY20 and will expand further as Jajpur and Dhar plants commissions

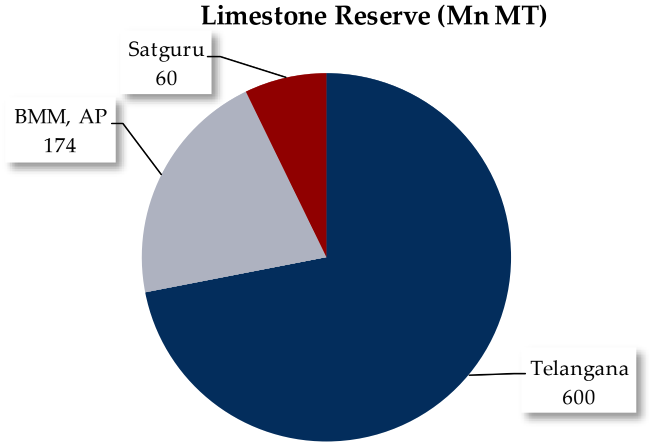


Source: Company, HSIE Research

Large limestone reserves and robust power infrastructure

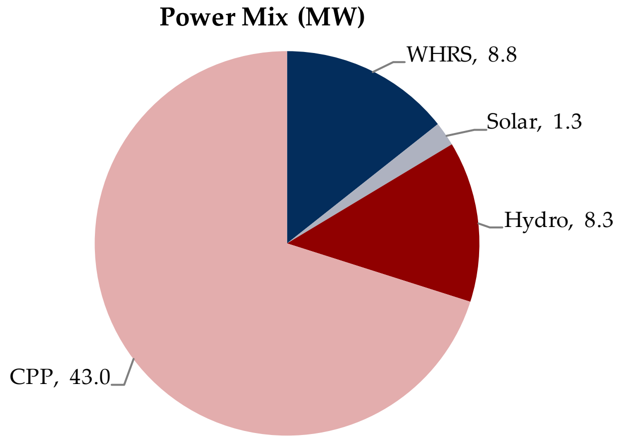
Sagar has huge limestone reserves of ~1bn spread across Mattampally (815mn MT) and Gudipadu, BMM (167mn MT). Even the Satguru plant in Dhar, Madhya Pradesh, has ~60mn MT of limestone reserves (more than 40years of reserves for a 1mn MT cement capacity). The reserves in Mattampally and Gudipadu are large and can support the company's future expansion plans around these mines. The upcoming Odisha grinding unit will meet its clinker requirement from the Mattampally plant. Sagar can take up brownfield clinker expansion at Mattampally and brownfield/greenfield grinding expansion in coastal Andhra and eastern regions. Similarly, it can expand its capacity in and around its Gudipadu plant to expand footprint in Tamil Nadu and Karnataka markets.

Sagar has sufficient limestone reserves across all its clinker plant locations



Source: Company, HSIE Research

Its captive power sources can meet 80% of its electricity needs (include green power share at 20%)



Source: Company, HSIE Research

Sagar has a total of 61MW of captive power generation capabilities. It has two thermal power plants – 18MW at Mattampally and 25MW at BMM. It also has 8.8MW of WHRS at Mattampally. Thus, both these plants largely meet its total electricity requirements. Sagar also has 8.4MW of hydro power plants. The electricity from the same is being wheeled to its Vizag grinding unit, which meets a large part of its electricity requirement at the plant. Thus, in totality, the company is able to meet ~20% of its total electricity requirements from renewal sources (WHRS, Hydro), which are at much lower costs of < INR 0.5/KwH (much lower than INR 4-6/KwH incurred on CPP/grid power). Its thermal CPPs currently meet ~60% of its total electricity requirement and the balance 20% is sourced from the grid. It is also adding a 5.3MW WHRS at its upcoming 1mn MT integrated plant in MP, enhancing its focus on green power.

Increased blended cement production and higher share of low cost green power is benefitting the company by reducing its carbon footprint as well as operating costs.

We estimate unitary EBITDA to sustain above INR 850/MT and volume growth to accelerate

While Sagar has been able to deliver 15% volume CAGR over the past five years, its utilisation has remained low in the 50-60% range. This is on account of its continuous capacity increase and demand volatility across south and Maharashtra regions. Its operating margin remained low at ~INR 450-650/MT during FY15-20 period, owing to low utilisation, volatile pricing in south, and lack of major cost levers (lower share of blended cement and slow ramp-up of WHRS installed in FY18). In FY21, despite continued weak demand across south, we expect its sales volume to rise 1% YoY (after a 6% decline in FY20), leading to low utilisation of 55%. However, despite this, we estimate unitary EBITDA to soar to INR 1,272/MT, mainly led by the surge in cement prices across south market and supported by robust fixed cost controls (across Industry). For Sagar, its rising share of blended cement and ramp-up of green power are expected to support 2% opex decline, bolstering margin.

Over the next two years, we expect the company's volume to grow at 28% CAGR, driven by ramp-up of new expansions (Odisha and MP) and sales recovery in its core markets (on a low base of FY20/21). Thus, we expect utilisation to rebound to ~63% in FY23E. In our view, the realisation peaked out in south during 1QFY21, and we expect the price to cool off in FY22E as companies would focus on volume growth, leading to a slight fall in realisation. We model in 6/1% NSR decline YoY during FY22/23E. However, increased contribution of blended cement production, higher utilisation of WHRS, and overall operating leverage gains would moderate the impact of lower realisation (vs FY21). Thus, we model in unitary EBITDA at INR 904/876 per MT during FY22/23E. Healthy operating margin along with robust volume growth should bolster its cash flows.

Operational Trends and Assumptions

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E
Cement Cap (mn MT)	**4.3**	**5.8**	**5.8**	**5.8**	**8.3**	**8.3**
Sales Volume (mn MT)	**2.7**	**3.3**	**3.1**	**3.2**	**3.9**	**5.2**
YoY change (%)	*23.3*	*22.8*	*(6.1)*	*0.7*	*24.7*	*31.7*
Utilisation (%)	*63.1*	*58.0*	*54.5*	*54.8*	*47.7*	*62.8*
(INR/ MT trend)						
NSR	**3,825**	**3,653**	**3,753**	**4,383**	**4,120**	**4,079**
YoY change (%)	*3.4*	*(4.5)*	*2.7*	*16.8*	*(6.0)*	*(1.0)*
Raw Materials	535	716	726	770	797	813
Power & Fuel	1,221	1,088	987	840	882	900
Freight costs	803	757	715	770	793	813
Employee cost	189	176	207	224	216	197
Other expenses	520	466	526	506	528	481
Total Opex	**3,268**	**3,205**	**3,161**	**3,110**	**3,216**	**3,203**
YoY change (%)	*2.2*	*(1.9)*	*(1.4)*	*(1.6)*	*3.4*	*(0.4)*
EBITDA per MT	**557**	**448**	**592**	**1,272**	**904**	**876**
YoY change (%)	*11.2*	*(19.6)*	*32.2*	*114.8*	*(28.9)*	*(3.1)*

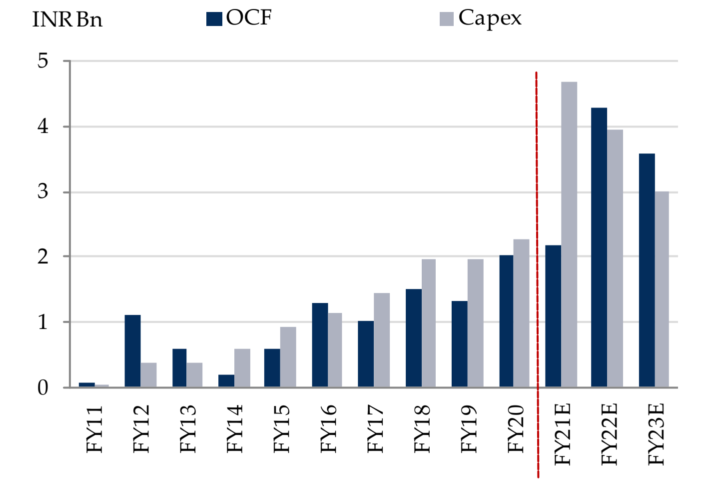
Source: Company, HSIE Research

Healthy balance sheet on equity infusion and robust Cashflow outlook

Sagar is currently executing two major expansions – a 1mn MT integrated plant in Dhar, MP (at total cost of INR 4.9bn) and a 1.5mn MT split GU in Jajpur, Odisha (at a cost of INR 3.1bn). The company owns 65% stake in the Dhar plant and 100% in the Jajpur plants. Of the total INR 8bn Capex, it spent ~INR 1.5bn towards these in FY20, and ~INR 5bn during FY21E. The remaining Capex amount of INR 1.5bn is expected to be spent during 1HFY22E. Sagar is funding the same through debt, internal accruals and promoters' subscriptions to warrants during FY20/21. While we expect net debt to increase to INR 7.1bn in FY22E, owing to ongoing Capex, we estimate its gearing ratios to remain under control, aided by equity infusion by the promoters and healthy cashflow outlook.

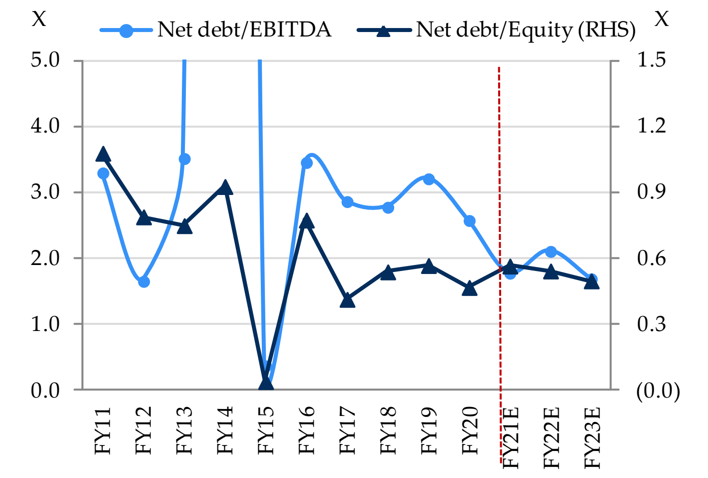
The promoters issued and subscribed to 3.1mn warrants at INR 730/share during FY19-21, thereby infusing INR 2.3bn in equity. During FY21-23E, we estimate Sagar would generate cumulative OCF of INR 10bn. This should largely fund its ongoing Capex. Thus, we expect the company's incremental borrowing to moderate during FY22-23E. Subsequently, we estimate that Sagar's net debt/equity would remain steady at ~0.5-0.6x and its net debt/EBITDA would be comfortable at ~2x.

Sagar should generate ~INR 10bn of OCF in FY21-23E, which should majorly fund its ongoing expansions



Source: Company, HSIE Research

Net Debt/Equity to remain stable at ~0.5-0.6x and Net debt/EBITDA at ~2x; despite major expansions



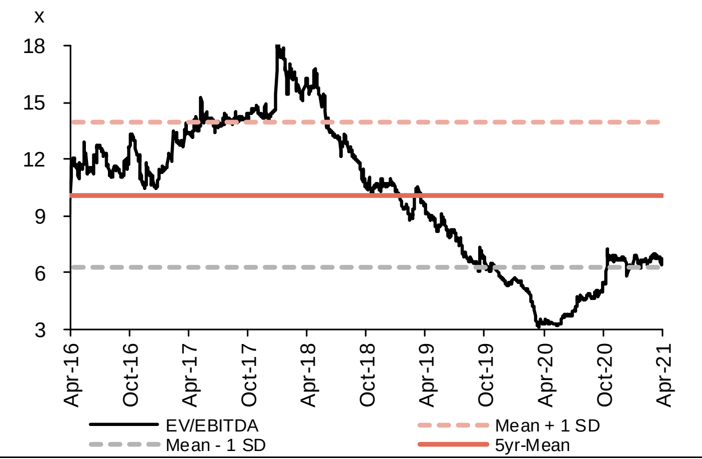
Source: Company, HSIE Research

Initiate coverage with a BUY rating and TP of INR 1,082

Over the past 5/10 years, the stock has traded at one-yr fwd EV/EBITDA multiple of 11/11x respectively. On replacement cost basis, it has traded at an EV of INR 3.5/2.7bn per mn MT of capacity. The company's utilisation and profitability have been impacted in the past by demand and price volatility in the southern market. However, we note that the company has steadily worked on structurally improving its cost levers – rising blended cement, ramp-up of its low-cost green power, and addition of CPP. These, along with expected uptick in utilisation, should buoy unitary EBITDA to more than INR 850/MT, despite factoring in moderation in the realisation gain seen in FY21.

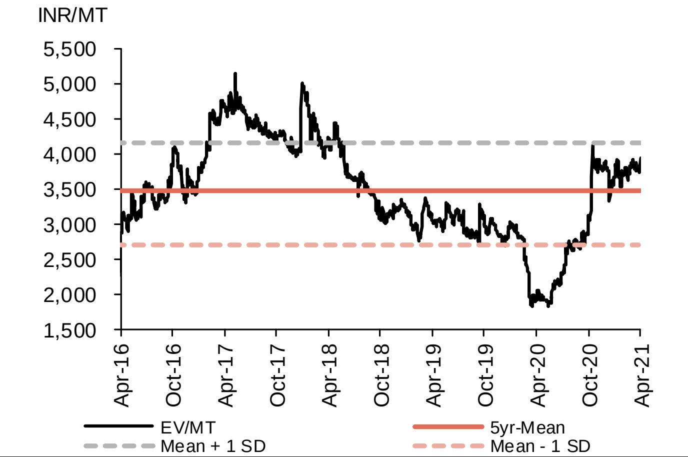
We value the company at 7x FY23E consolidated EBITDA, implying EV/MT of INR 3.8bn per MT. While our target valuation is at 37% discount to its five-year mean, on replacement cost basis, our target valuation implies 10% premium to its five-year mean. The earning-based discount is warranted owing to weak demand supply fundamentals in the south, which can lead to high volatility in forecasted earnings. Orient Cement is its most comparable peer in the listed space (in terms of size, market mix). We value Sagar in line with our valuation multiple for Orient Cement (7x EBITDA).

1-yr forward EV/EBITDA trend



Source: Company, HSIE Research

1-yr forward EV/MT trend



Source: Company, HSIE Research

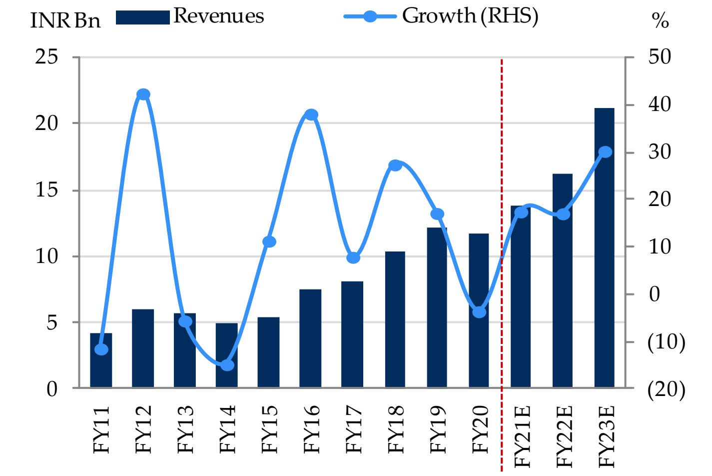
Key Risks

- **Significant roll back in cement prices**: We model in 6/1% YoY NSR decline in FY22/22E, mainly to factor in cement prices cooling off in south. However, if the demand recovery in delayed, there can be further correction in cement prices, pulling down profits.
- **Rising fuel prices**: Pet-coke prices have almost doubled from the lows of May-20 and are at their all time highs. Even prices for thermal coal from South Africa and Indonesia have rebound to their 3-year highs. These will inflate fuel costs during FY22/23E. While we expect fuel prices to normalise, continued rise will depress profitability.
- **Delays in expansion projects**: The company expects to commission its green-field plants in Dhar (MP) and Jajpur (Odisha) by Sep'21. Any significant delays amid COVID uncertainties will also be earnings dilutive.

Financial summary

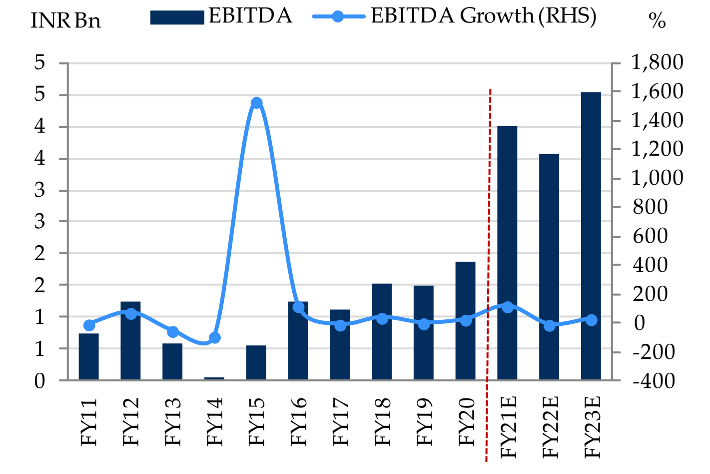
During FY20-23E, we estimate Sagar's consolidated revenue would grow at 22% CAGR, driven by 18% volume CAGR and 3% NSR CAGR. In our view, volume growth would be largely driven by capacity ramp-up in Odisha and MP. While NSR soared 17% YoY in FY21E, we have built in NSR decline by 6/1% respectively during FY22/23E, thus moderating our NSR CAGR estimate at 3%.

We expect consolidated revenue CAGR of 22% during FY20-23E



Source: Company, HSIE Research

And consolidated EBITDA CAGR of 35%

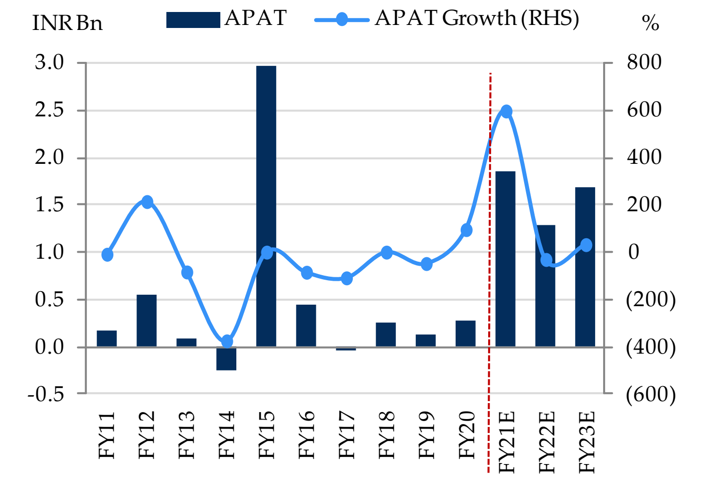


Source: Company, HSIE Research

We estimate sustained rebound in unitary EBITDA (led by both higher realisation and cost controls) to accelerate EBITDA CAGR at 35%. On a low base, we expect APAT to soar at 85% CAGR. We expect EBITDA margin to sustain at ~22% and APAT margin at ~8% during FY22/23E.

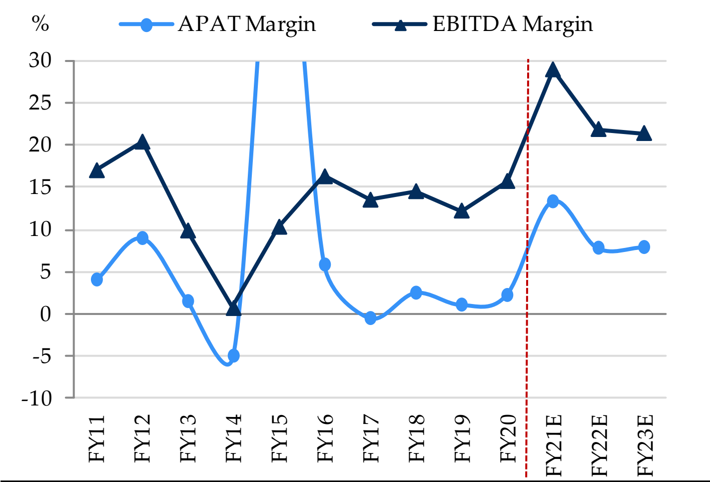
Sagar's profitability and return ratios were extremely volatile during FY14/15. During FY14, weak demand and cost bloat-up hit Sagar's profitability hard and it reported its all-time low unitary EBITDA of ~INR 25/MT, leading to net loss and negative return ratios. In the following year, Sagar sold off its stake in Sagar Vicat Cement JV to Vicat for INR 4.3bn. This inflated its FY15 EBIT/APAT, cash balance and return ratios.

We expect APAT CAGR at 85% on a low base



Source: Company, HSIE Research

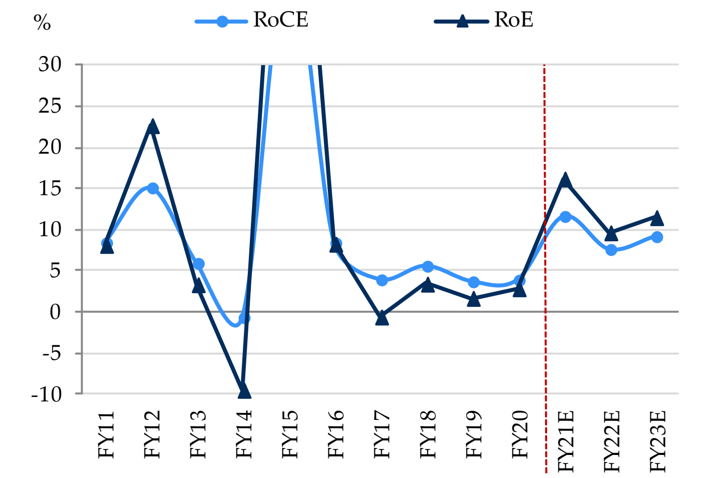
EBITDAM, NPM trends



Source: Company, HSIE Research

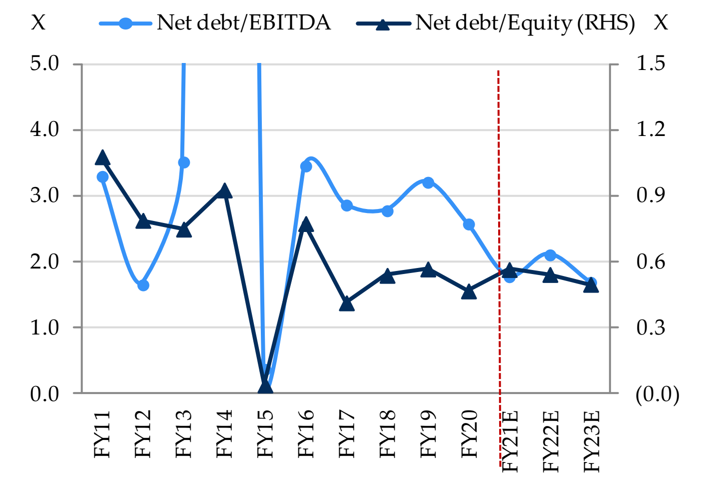
We expect gearing ratio to remain under control despite major expansions in the central and eastern regions and expected rise in capex FY23E onwards towards its journey to become a 10mn MT company by FY25E.

Return ratios expected to firm up



Source: Company, HSIE Research

Sagar's leverage ratio to remain comfortable



Source: Company, HSIE Research

Du-Pont analysis: During FY21-23E, we estimate significant improvement in RoE to 10% and above. This is driven by sharp improvement in net margin (led by operating margins firming up), and increase in asset sweating (as we expect utilisation to firm up).

Du Pont Analysis

Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net margin (%)	5.9	(0.5)	2.5	1.1	2.3	13.4	7.9	7.9
Asset turnover (x)	0.8	0.7	0.8	0.9	0.8	0.7	0.7	0.9
Leverage factor (x)	1.8	1.8	1.7	1.7	1.6	1.6	1.7	1.6
RoE (%)	***8.3***	***(0.6)***	***3.4***	***1.7***	***2.8***	***16.2***	***9.7***	***11.5***

Source: Company, HSIE Research

Financials

Consolidated Income Statement

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**7,534**	**8,138**	**10,381**	**12,176**	**11,752**	**13,821**	**16,201**	**21,127**
Growth %	*38.3*	*8.0*	*27.6*	*17.3*	*(3.5)*	*17.6*	*17.2*	*30.4*
Raw Material	1,369	1,045	1,451	2,388	2,273	2,428	3,134	4,211
Power & Fuel	2,204	2,719	3,314	3,628	3,092	2,649	3,468	4,660
Freight Expense	1,205	1,511	2,179	2,525	2,238	2,428	3,119	4,211
Employee cost	416	431	513	588	649	707	848	1,018
Other Expenses	1,109	1,329	1,411	1,554	1,646	1,596	2,075	2,490
EBITDA	**1,231**	**1,104**	**1,513**	**1,494**	**1,855**	**4,013**	**3,556**	**4,537**
EBIDTA Margin (%)	*16.3*	*13.6*	*14.6*	*12.3*	*15.8*	*29.0*	*22.0*	*21.5*
EBITDA Growth %	*118.3*	*(10.3)*	*37.1*	*(1.2)*	*24.2*	*116.3*	*(11.4)*	*27.6*
Depreciation	347	476	536	657	789	820	1,049	1,232
EBIT	**884**	**628**	**977**	**837**	**1,066**	**3,193**	**2,508**	**3,305**
Other Income	46	35	73	29	40	80	50	50
Interest	419	621	593	634	610	473	675	728
PBT	**511**	**42**	**457**	**232**	**497**	**2,800**	**1,883**	**2,627**
Tax	64	81	194	96	231	952	659	919
Minority Int	-	-	-	-	-	-	(51)	28
RPAT	**448**	**(39)**	**263**	**136**	**265**	**1,848**	**1,275**	**1,679**
EO (Loss) / Profit (Net Of Tax)	5	-	-	-	-	-	-	-
APAT	**443**	**(39)**	**263**	**136**	**265**	**1,848**	**1,275**	**1,679**
APAT Growth (%)	*(85.1)*	*(108.9)*	*n/a*	*(48.2)*	*95.2*	*596.7*	*(31.0)*	*31.7*
AEPS	**25.5**	**(1.9)**	**12.9**	**6.7**	**11.9**	**78.6**	**54.2**	**71.4**
AEPS Growth %	*(85.1)*	*(107.5)*	*n/a*	*(48.2)*	*78.7*	*560.4*	*(31.0)*	*31.7*

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS								
Share Capital	174	204	204	204	223	235	235	235
Reserves And Surplus	5,317	7,426	7,588	8,234	9,444	11,834	13,026	14,623
Total Equity	**5,491**	**7,630**	**7,792**	**8,438**	**9,667**	**12,069**	**13,261**	**14,858**
Minority Interest	**-**	**-**	**-**	**-**	**539**	**539**	**539**	**539**
Long-term Debt	3,451	3,910	3,631	3,702	3,499	6,146	6,546	6,946
Short-term Debt	870	956	1,153	1,389	1,409	1,127	1,183	1,242
Total Debt	**4,321**	**4,866**	**4,783**	**5,090**	**4,908**	**7,273**	**7,729**	**8,188**
Deferred Tax Liability	18	54	84	83	227	227	227	227
Long-term Liab+ Provisions	724	505	569	642	822	826	904	989
TOTAL SOURCES OF FUNDS	**10,553**	**13,055**	**13,228**	**14,253**	**16,163**	**20,935**	**22,661**	**24,802**
APPLICATION OF FUNDS								
Net Block	9,572	10,006	10,526	12,441	13,840	13,420	21,521	20,789
Capital WIP	152	553	1,254	1,101	1,080	5,380	180	2,680
Goodwill	-	-	-	-	-	-	-	-
Other Non-current Assets	578	446	692	353	1,084	1,430	480	480
Total Non-current Investments	3	3	-	-	-	-	-	-
Total Non-current Assets	**10,304**	**11,008**	**12,471**	**13,895**	**16,003**	**20,230**	**22,181**	**23,949**
Inventories	905	1,104	949	1,450	1,158	1,382	1,539	2,007
Debtors	809	808	926	1,156	1,368	1,797	1,782	2,324
Cash and Cash Equivalents	65	1,705	581	295	128	140	231	514
Other Current Assets (& Loans/adv)	386	462	461	486	519	521	543	546
Total Current Assets	**2,165**	**4,078**	**2,916**	**3,388**	**3,172**	**3,839**	**4,096**	**5,390**
Creditors	1,324	1,478	1,368	2,038	2,230	2,350	2,754	3,592
Other Current Liabilities & Provns	593	553	791	990	783	785	861	946
Total Current Liabilities	**1,917**	**2,031**	**2,159**	**3,029**	**3,013**	**3,134**	**3,616**	**4,537**
Net Current Assets	**249**	**2,047**	**758**	**359**	**159**	**705**	**480**	**853**
TOTAL APPLICATION OF FUNDS	**10,553**	**13,055**	**13,228**	**14,253**	**16,163**	**20,935**	**22,661**	**24,802**

Source: Company, HSIE Research

Consolidated Cash Flow

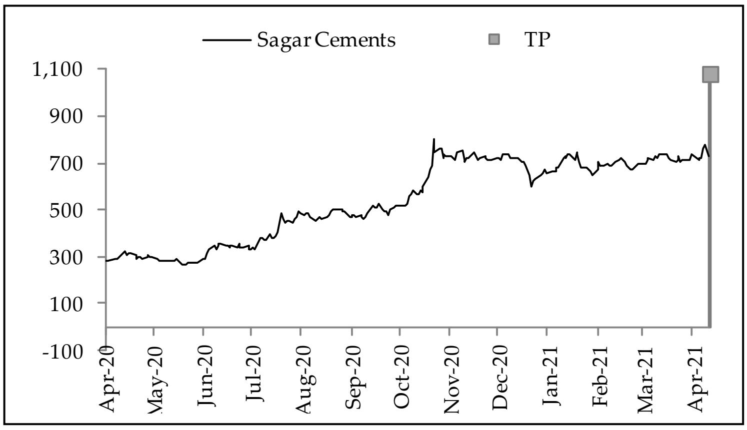
YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	506	42	457	232	497	2,800	1,934	2,599
Non-operating & EO Items	(33)	(18)	(62)	(48)	(82)	(87)	(50)	(50)
Interest Expenses	419	621	593	634	610	473	675	728
Depreciation	347	476	536	657	789	820	1,049	1,232
Working Capital Change	286	(58)	120	(107)	306	(875)	1,344	(5)
Tax Paid	(236)	(53)	(144)	(38)	(99)	(952)	(659)	(919)
OPERATING CASH FLOW (a)	**1,289**	**1,010**	**1,500**	**1,330**	**2,021**	**2,179**	**4,292**	**3,584**
Capex	(1,127)	(1,444)	(1,962)	(1,951)	(2,272)	(4,700)	(3,950)	(3,000)
Free Cash Flow (FCF)	162	(434)	(463)	(621)	(252)	(2,521)	342	584
Investments	(23)	(69)	(55)	50	(11)	-	-	-
Non-operating Income	41	7	77	33	13	80	50	50
Others								
INVESTING CASH FLOW (b)	**(1,109)**	**(1,506)**	**(1,940)**	**(1,868)**	**(2,270)**	**(4,620)**	**(3,900)**	**(2,950)**
Debt Issuance/(Repaid)	(1,803)	495	(79)	397	(227)	2,365	456	459
Interest Expenses	(401)	(571)	(590)	(618)	(625)	(473)	(675)	(728)
FCFE	(2,043)	(511)	(1,132)	(843)	(1,103)	(629)	124	315
Share Capital Issuance	-	2,161	-	566	1,027	671	-	-
Dividend	(148)	-	(98)	(37)	(62)	(110)	(83)	(83)
FINANCING CASH FLOW (c)	**(2,353)**	**2,084**	**(767)**	**307**	**113**	**2,453**	**(301)**	**(351)**
NET CASH FLOW (a+b+c)	**(2,173)**	**1,588**	**(1,208)**	**(231)**	**(136)**	**12**	**91**	**283**
EO Items, Others								
Closing Cash & Equivalents	**20**	**1,653**	**497**	**350**	**159**	**140**	**231**	**514**

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY %								
EBITDA Margin	16.3	13.6	14.6	12.3	15.8	29.0	22.0	21.5
EBIT Margin	11.7	7.7	9.4	6.9	9.1	23.1	15.5	15.6
APAT Margin	5.9	(0.5)	2.5	1.1	2.3	13.4	7.9	7.9
RoE	8.3	(0.6)	3.4	1.7	2.8	16.2	9.7	11.5
RoIC	9.1	4.0	5.7	3.7	3.8	11.4	7.5	9.2
RoCE	8.4	3.9	5.6	3.7	3.9	11.6	7.6	9.2
EFFICIENCY								
Tax Rate %	12.4	192.9	42.5	41.4	46.6	34.0	35.0	35.0
Fixed Asset Turnover (x)	0.8	0.6	0.8	0.8	0.7	0.7	0.7	0.7
Inventory (days)	44	49	33	43	36	37	35	35
Debtors (days)	39	36	33	35	42	47	40	40
Other Current Assets (days)	47	41	41	25	50	52	23	18
Payables (days)	64	66	48	61	69	62	62	62
Other Current Liab & Provns (days)	64	47	48	49	50	43	40	33
Cash Conversion Cycle (days)	2	13	11	(7)	9	31	(4)	(3)
Net Debt/EBITDA (x)	3.5	2.9	2.8	3.2	2.6	1.8	2.1	1.7
Net D/E	0.8	0.4	0.5	0.6	0.5	0.6	0.5	0.5
Interest Coverage	2.1	1.0	1.6	1.3	1.7	6.8	3.7	4.5
PER SHARE DATA (INR)								
EPS	25.5	(1.9)	12.9	6.7	11.9	78.6	54.2	71.4
CEPS	45.4	21.4	39.2	38.9	47.3	113.5	98.9	123.9
Dividend	6.0	1.5	4.0	2.5	2.5	4.0	3.0	3.0
Book Value	315.8	374	382	414	458	536	587.1	655.1
VALUATION								
P/E (x)	38.5	(434.1)	64.8	125.2	64.1	9.2	13.3	10.1
P/Cash EPS (x)	21.4	39.0	21.3	21.5	16.1	6.4	7.3	5.8
P/BV (x)	3.1	2.2	2.2	2.0	1.8	1.4	1.3	1.1
EV/EBITDA (x)	17.3	18.3	14.0	14.6	12.0	6.2	7.0	5.6
EV/MT (INR bn)	5.68	4.69	4.93	3.79	3.88	4.29	3.04	3.06
Dividend Yield (%)	0.8	0.2	0.6	0.3	0.3	0.6	0.4	0.4
OCF/EV (%)	6.1	5.0	7.1	6.1	9.0	8.8	17.1	14.2
FCFF/EV (%)	0.8	(2.2)	(2.2)	(2.8)	(1.1)	(10.2)	1.4	2.3
FCFE/M Cap (%)	(12.0)	(3.0)	(6.6)	(5.0)	(6.5)	(3.7)	0.7	1.9

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
13-Apr-21	724	BUY	1,082

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

We, **Rajesh Ravi, MBA & Saurabh Dugar, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com