

Cement

Q2FY23 to be weak

Summary

Our interaction with cement dealers suggests that avg. cement price at all India level has increased by 2% MoM in Sep-22. But given the weakness in July/Aug-22, average cement prices at an all India level has declined by ~3% QoQ in Q2FY23. Maximum decline is seen in east by 6% QoQ and maximum increase is seen in north of 3% QoQ in Q2FY23. Q2FY23 has been weak in terms of prices, coupled with higher cost, this is expected to put pressure on EBITDA/t. Industry EBITDA/t could decline sharply (exhibit 8) with companies in east to be most impacted. Having said this, we expect demand to improve post Diwali and price hike has begun and would watch for continuation of it. In the last 1 month, many mid/small cap cement stocks have seen run-up in stock prices led by price hike and anticipation of consolidation. Maintain neutral view on the sector; await better price point to BUY Ultratech in the weak Q2.

Monthly key variables:

- **Cement prices:** Average cement price at an all India level increased MoM in Sep-22 by 2%. Highest price hike was seen in the east with increase of 6% MoM. South regions saw an increase of 4% on MoM basis whereas west saw increase of 1%. Prices were stable in North and central regions. As dry season is approaching, industry to increase cement prices in the coming months.
- **Cement Cost:** Imported coal prices peaked at \$388/t on 6th Sep'22 before gradually declining and currently stand at USD300/t. On MoM level, it is still up by 3% in Sep'22. But positive is pet coke prices has fallen due to weak crude oil prices.
- **Cement demand:** Cement production in India for the month of Jul'22 has increased by 2% YoY. Due to monsoon and shradh month, demand is seeing some weakness as new projects are not started, however post Diwali we expect demand to increase, for FY23E we expect demand increase by 9% YoY in FY23E.

Valuation snapshot

Companies	Reco	Mkt Cap Rs bn	CMP (Rs)	TP (Rs)	Upside (%)	EV/EBITDA FY23E	FY24E
Ultratech C.	HOLD	1782	6174	6789	10	18	14
Shree C.	HOLD	752	20853	21487	3	21	17
Ambuja C*	HOLD	993	500	360	-28	23	19
ACC*	HOLD	441	2349	2327	-1	13	8

Source: IDBI Capital Research; Note: *Dec Y/E for ACC, Ambuja

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A) PRICES / REALIZATION

Exhibit 1: Region wise cement prices trend

Rs/bag	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
South	395	415	398	374	372	362	392	382	382	382	387	403
West	361	378	370	361	371	376	423	403	401	397	396	399
Central	354	384	383	365	366	380	411	404	390	388	389	388
North	384	411	396	400	397	378	448	450	426	417	409	408
East	318	329	311	337	364	339	384	358	341	335	327	349
All India average	362	383	371	367	374	367	411	399	388	384	381	389

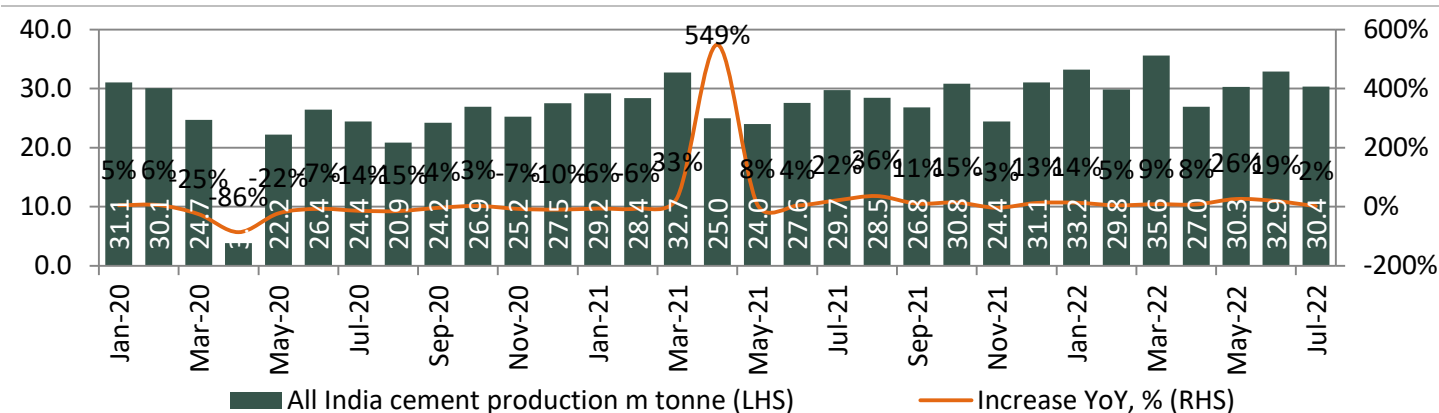
Change MoM %	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
South	-1%	5%	-4%	-6%	-1%	-3%	8%	-3%	0%	0%	1%	3%
West	-1%	4%	-2%	-2%	3%	1%	12%	-5%	0%	-1%	0%	1%
Central	-5%	8%	0%	-5%	0%	4%	12%	-2%	-3%	-1%	0%	0%
North	-1%	7%	-4%	1%	-1%	-5%	12%	0%	-5%	-2%	-2%	0%
East	-3%	4%	-6%	8%	8%	-7%	13%	-7%	-5%	-2%	-2%	6%
All India average	-2%	6%	-3%	-1%	2%	-2%	12%	-3%	-3%	-1%	-1%	2%

Change MoM Rs/bag	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
South	(3)	20	(18)	(24)	(2)	(10)	30	(10)	0	0	5	14
West	(5)	16	(8)	(9)	10	5	46	(19)	(2)	(2)	(1)	4
Central	(18)	30	(1)	(18)	1	14	45	(8)	(14)	(3)	1	(1)
North	(5)	28	(15)	4	(3)	(19)	49	2	(23)	(10)	(8)	(1)
East	(9)	12	(18)	26	27	(25)	45	(25)	(18)	(6)	(8)	19
All India average	(8)	21	(12)	(4)	7	(7)	43	(12)	(11)	(4)	(2)	7

Source: IDBI Capital Research

B) VOLUME

Exhibit 2: All India cement production is up by 2% YoY in Jul-22



Source: PIB Release

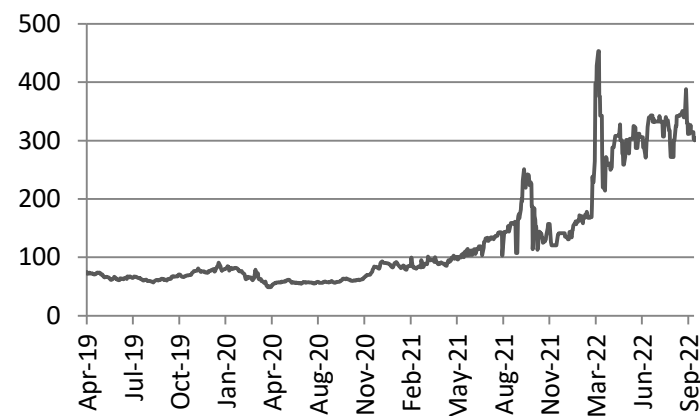
Exhibit 3: All India cement demand and supply matrix, we expect pick in the utilization over FY23-24E

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Cement Capacity m tonne	417	428	475	497	520	536	555	579	619	652
Yearly Capacity addition m tonne	15	11	47	22	23	16	19	24	40	33
Capacity addition growth yoy, %	3.7%	2.6%	11.0%	4.6%	4.6%	3.1%	3.5%	4.3%	6.9%	5.3%
Cement Demand m tonne	269	276	297	334	332	320	365	398	429	455
Yearly demand m tonne	12	7	21	37	-2	-12	45	33	32	26
Demand growth yoy, %	4.7%	2.6%	7.6%	12.5%	-0.6%	-3.6%	14.0%	9.0%	8.0%	6.0%
All India Cement Utilization	65%	64%	63%	67%	64%	60%	66%	69%	69%	70%

Source: IDBI Capital Research

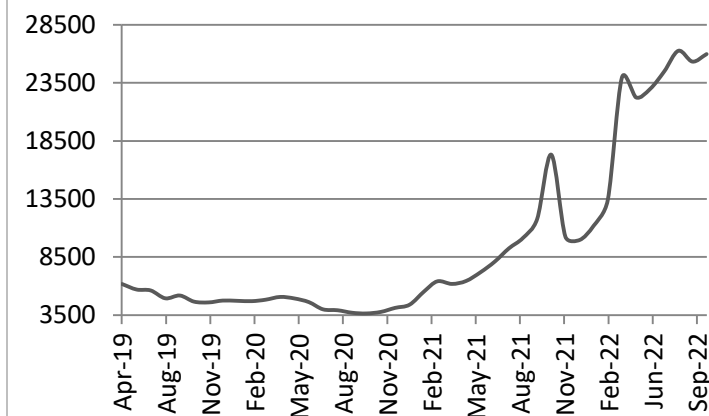
C) COSTS

Exhibit 4: Imported coal price remains elevated at average ~USD325/t in Sep'22



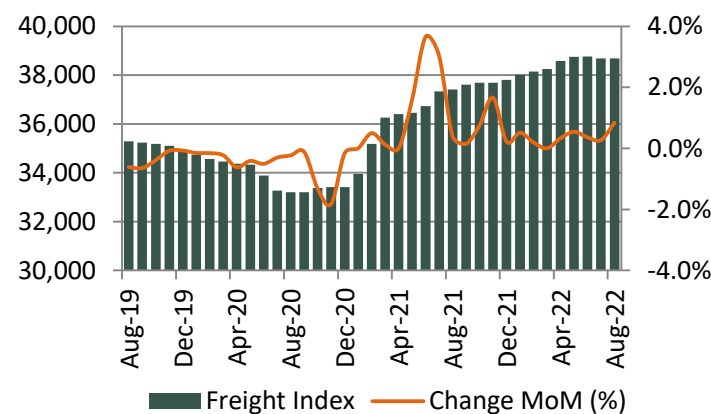
Source: Bloomberg, Kcal 6000 Richard Bay

Exhibit 5: ... in Rupee terms, coal prices saw increase of 3% MoM in Sep'22



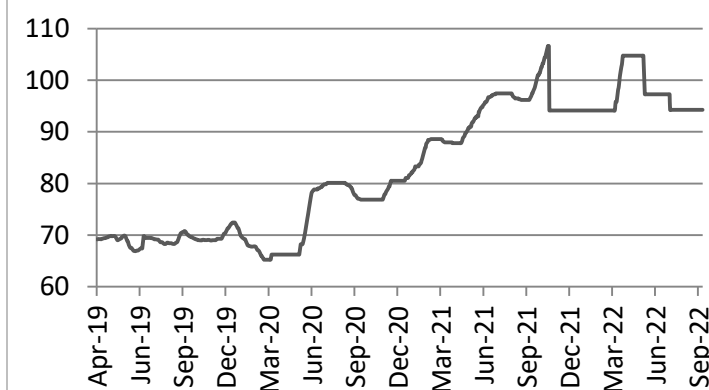
Source: Bloomberg

Exhibit 6: Freight index flat MoM in Aug-22 (USD/t)



Source: Bloomberg, Kcal 6000 Richard Bay

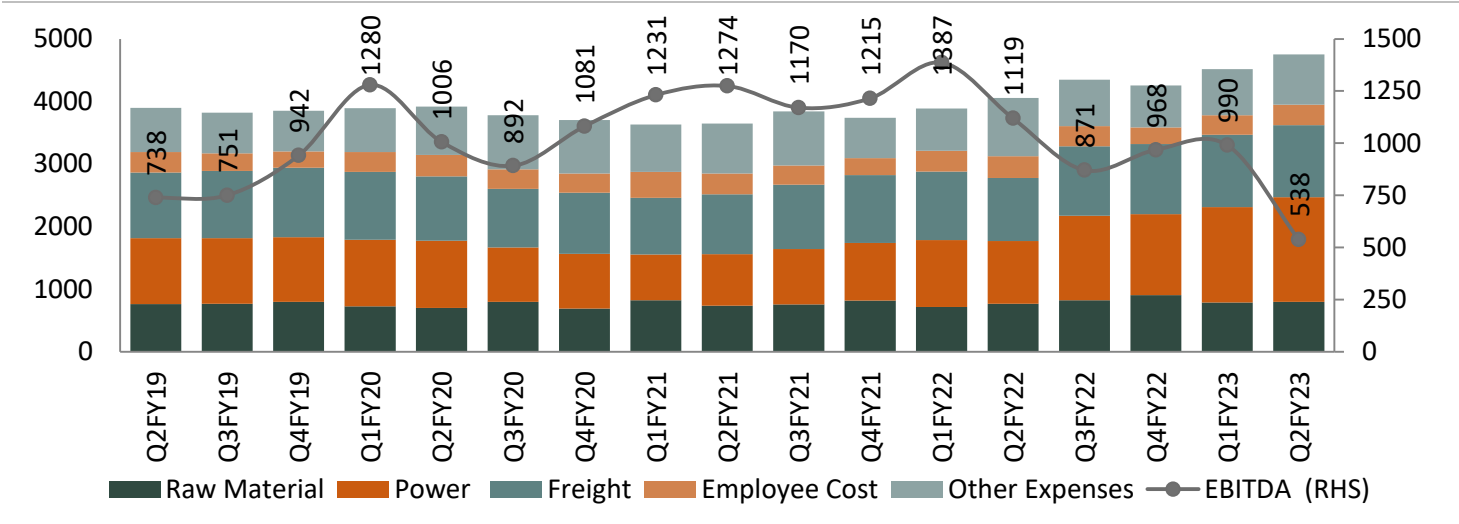
Exhibit 7: Diesel price remained flat MoM (Rs/t)



Source: Bloomberg

D) EBITDA/t

Exhibit 8: Industry EBITDA (Rs/t)



Source: IDBI Capital Research, Q1FY19 to Q1FY23 data of top 15 cement stocks

Exhibit 9: Cement player wise EBITDA/t

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Shree Cement	1479	1475	1360	1562	1421	1513	1520	1439	1542	1422	1260	1134	1091
ACC	1166	926	736	893	1093	1034	740	1074	1279	1083	741	822	563
Ambuja Cement	1190	841	841	1046	1421	1199	1095	1349	1495	1134	811	1055	926
Ultratech Cement	1440	1077	986	1190	1416	1403	1296	1388	1611	1251	1041	1101	1236
Dalmia Bharat	1464	1063	892	943	1680	1465	1197	1203	1436	1217	721	1033	1095
Ramco	1329	1084	713	953	1342	1997	1519	1399	1700	1454	768	924	908
Nuvoco Vistas	-	-	-	-	421	952	1430	937	1225	870	537	773	768
Sagar Cements	959	597	261	532	1554	1455	1214	1022	1217	715	629	542	514
Heidelberg Cement	1253	1083	981	1168	1264	1137	947	1215	1107	946	607	961	855
Jk lakshmi	848	722	653	719	510	980	712	922	813	702	595	947	779
Birla Corp.	565	494	420	514	388	534	434	451	498	342	242	300	498
Orient Cement	997	433	371	794	1198	1110	1005	1095	1368	1048	965	947	743
Jk Cement	1314	1134	1085	1297	1216	1462	1416	1126	1323	988	1124	974	1124
Star Cement	1560	1067	1253	1432	1451	1214	1268	1159	1220	1156	783	984	1265
Weighted average	1287	1030	916	1097	1249	1278	1179	1221	1398	1136	889	973	990

Source: Company

E) Market Share

Exhibit 10: Market Share by sales volume of top 15 players at 84% as on Q1FY23 vs. 85% as on Q4FY22

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Shree Cement	7%	7%	7%	8%	9%	9%	9%	9%	9%	7%	8%	8%	8%
ACC	9%	8%	9%	8%	9%	9%	10%	9%	9%	8%	9%	8%	8%
Ambuja Cement	7%	7%	8%	7%	8%	8%	9%	8%	8%	7%	8%	8%	8%
Ultratech Cement	24%	23%	24%	24%	28%	28%	30%	29%	27%	26%	27%	28%	28%
Dalmia Bharat	5%	6%	6%	6%	7%	7%	7%	7%	6%	6%	7%	7%	7%
Ramco	3%	4%	3%	3%	4%	3%	3%	4%	3%	3%	3%	3%	4%
Nuvoco Vistas	-	-	-	-	6%	5%	4%	6%	5%	4%	5%	6%	5%
Sagar Cements	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Heidelberg Cement	1%	1%	1%	1%	2%	2%	2%	1%	2%	1%	1%	1%	1%
Jk lakshmi	2%	3%	3%	3%	4%	4%	3%	3%	3%	3%	3%	3%	3%
Birla Corp.	4%	4%	4%	4%	5%	5%	4%	5%	4%	4%	4%	4%	4%
Orient Cement	2%	2%	2%	2%	2%	1%	2%	2%	2%	2%	1%	2%	2%
Jk Cement	3%	3%	3%	3%	3%	4%	4%	4%	4%	4%	4%	4%	4%
Star Cement	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Combined market share of top 15 players	71%	70%	74%	72%	88%	89%	90%	91%	86%	78%	82%	85%	84%

Source: IDBI Capital Research

F) STOCK PERFORMANCE

Exhibit 11: Stock performance in cement sector

	Performance (%)					Relative to Index (%)				
	1M	6M	12M	3 Year	5 Year	1M	6M	12M	3 Year	5 Year
ULTRATECH CEMENT	-6	-6	-16	57	62	-2	-2	-12	5	-11
ACC Ltd	3	10	4	59	43	8	14	9	8	-30
AMBUJA CEMENT	25	69	26	171	93	29	73	31	119	20
SHREE CEMENT	-5	-15	-29	15	12	-1	-11	-25	-37	-61
DALMIA BHARAT LT	1	1	-25	94	NA	5	5	-20	42	NA
RAMCO CEMENT	-1	-3	-25	4	8	3	1	-20	-48	-65
HEIDELBERGCEMENT	-1	-4	-26	2	59	3	0	-22	-50	-15
BIRLA CORP	3	-17	-27	86	11	7	-13	-22	35	-62
STAR CEMENT LTD	10	13	-3	15	-2	14	17	1	-37	-75
JK CEMENTS LTD	-5	2	-16	150	170	-1	5	-12	98	96
JK LAKSHMI CEMEN	22	24	-7	93	49	27	28	-2	41	-24
SAGAR CEMENTS	-1	-20	-32	69	24	3	-16	-28	17	-50
PRISM JOHNSON LT	-4	0	-3	53	17	0	4	1	1	-56
MANGALAM CEMENT	9	-4	-17	24	10	14	0	-13	-28	-63
DECCAN CEMENTS	-2	-10	-28	47	-9	2	-7	-24	-5	-83
ORIENT CEMENT LT	8	-12	-19	49	-15	13	-8	-15	-3	-88
INDIA CEMENTS	10	15	30	216	45	14	19	34	164	-28
SANGHI INDUS LTD	3	23	-15	16	-43	7	27	-11	-36	-117
NUVOCO VISTAS	14	5	-25	NA	NA	19	9	-20	NA	NA
CEMENT SECTOR										
- Large Cap, Mkt cap > Rs200bn	1	4	-9	84	74	6	8	-5	32	1
- Mid Cap, Mkt cap Rs50bn - Rs200bn	6	2	-9	78	32	10	6	-5	27	-41
- Small Cap, Mkt Cap < Rs50b	5	-1	-16	35	45	10	3	-12	-17	-28
Nifty 50	-4	-4	-4	52	73	0	0	0	0	0

Source: Bloomberg



Notes

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