

Cement

Cements | Sector Update

March 27, 2024

Tough quarter as industry struggles to maintain EBITDA/T

Key Points

- The Cement industry is predicted to grow by ~6% in 4QFY24 and 9% in FY24, driven by persistent government investments in infrastructure, rural development and housing market growth.
- Within our coverage universe, Ambuja, Ramco, JK Lakshmi Cement and Dalmia Cement are expected to witness increased volume in the upper teens. Wonder Cement and Orient Cement are expected to see double-digit volume growth outside our coverage.
- While volume will drive the industry's topline growth in 4QFY24, the effect of price declines will be offset by lower Power & Fuel costs. The sequential improvement in EBITDA/T might be ~Rs0 to Rs100/T owing to fixed cost absorption through higher volume.
- Capacity utilization levels for the industry are expected at ~72% in FY24 and FY25.
- In FY25, Ultratech, Adani (Ambuja + ACC), and Dalmia Bharat are expected to add 30MTPA, 12MTPA, and 7MTPA, respectively. This trend reflects the consolidation theme that pervades the Indian cement industry, with major companies increasing their market position via significant capacity additions.
- Consolidation in the Indian cement sector is gaining momentum, with major players like Ultratech and Ambuja strategically acquiring capacities, driving their market share higher and fortifying their dominance while also eyeing stressed assets and greenfield initiatives for further expansion.

Company	Rating	CMP (Rs)	TP (Rs)
ACC	Buy	2,450	2,579
Ambuja Cement	Buy	595	915
Birla Corporation	Buy	1,418	1,841
Dalmia Bharat	Buy	1,961	3,005
Heidelberg Cement	Sell	192	166
JK Cement	Buy	4,046	4,655
JK Lakshmi Cement	Buy	861	1,193
Nuvoco Vistas	Buy	308	432
Sagar Cements	Accumulate	204	299
Shree Cements	Buy	25,684	32,918
Star Cement	Accumulate	225	192
The Ramco Cements	Buy	809	1,173
Ultratech Cements	Buy	9,601	11,669

Healthy cement demand growth of ~9% seen for FY24

Favourable macro trends will drive Cement sector expansion in FY24. Infrastructure development measures have boosted demand across markets. Cement consumption is predicted to grow owing to the government's commitment to infrastructure development and the continuous need for housing, led by rapid urbanisation and rising home loan demand.

Given the LS election in 2024, these initiatives are critical to stimulating economic demand. The National Rail Plan is commendable, with an allocation of Rs9.4 trillion. A significant 67% of this investment will go into railway track and terminal infrastructure, increasing demand for cement.

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Exhibit 1: Demand to remain buoyant at 8%+ in FY25

Company Name	Sales volume (mnmt)			Sales volume (mnmt)		Sales volume (mnmt)		Volume growth (%)			
	FY23E	FY24E	FY25E	9M FY23	9M FY24	Q4FY23	Q4FY24	FY24E	FY25E	9MFY24	Q4FY24E
ACC	30.6	35.9	37.8	22.1	26.4	8.5	9.5	17.5%	5.1%	19.7%	12.0%
Ambuja Cement(Consol)	54.7	59.4	73.9	40.6	42.6	14.1	16.8	8.6%	24.5%	4.9%	19.0%
Birla Corporation	15.7	17.6	19.5	11.3	12.8	4.4	4.8	12.0%	10.8%	13.3%	8.7%
Dalmia Bharat	25.7	28.5	33.0	18.3	20.0	7.4	8.5	11.0%	15.5%	9.3%	15.2%
Heidelberg Cement	4.4	4.8	4.9	3.2	3.6	1.2	1.3	10.0%	1.1%	11.4%	6.1%
JK Cement	16.0	18.7	20.4	11.3	13.6	4.7	5.2	17.0%	8.9%	19.5%	11.0%
JK Lakshmi Cement	10.8	11.6	12.7	8.3	8.9	2.4	2.7	7.9%	9.2%	7.1%	10.4%
Nuvoco Vistas	18.8	18.7	19.2	13.6	13.5	5.2	5.2	-0.4%	2.7%	-0.6%	0.0%
Sagar Cements	4.8	5.3	5.6	3.5	3.9	1.4	1.4	9.0%	5.8%	12.7%	-0.4%
Shree Cements	31.8	35.8	39.4	23.0	26.0	8.8	9.8	12.4%	10.2%	13.1%	10.5%
Star Cement	3.4	3.7	3.8	2.8	3.0	0.6	0.7	8.3%	4.2%	7.3%	12.4%
The Ramco Cements	14.9	18.5	19.5	10.2	12.9	4.7	5.6	24.0%	5.4%	26.2%	19.2%
Ultratech Cements	105.7	117.9	136.4	74.0	84.0	31.7	33.9	11.5%	15.7%	13.5%	6.9%
NBIE coverage	307	340	388	220.1	244.7	86.6	95.7	11.0%	14.0%	11.2%	10.5%
Other players	73	75	62	41.9	46.6	31.2	28.6	2.9%	-17.1%	11.2%	-8.3%
Total Industry	379.9	415.7	450.6	262.0	291.3	117.8	124.3	9.4%	8.4%	11.2%	5.5%

Source: Nirmal Bang Institutional Equities Research

In 9MFY24, the cement industry grew by ~11% YoY, consistent with the performance of our coverage universe, which accounts for ~84% of the industry. In FY24, the overall industry is expected to grow by ~9.4% while the NBIE universe is expected to grow faster than the overall industry at ~11%. Despite moderation in demand, state elections and festive seasons, FY24 demand remained constant, thanks to higher public and private capex, pre-election expenditure and rural sector recovery. The industry is expected to expand by ~5.5% in 4QFY24 while NBIE coverage will grow at a higher rate of ~11%.

Looking forward to FY25, the prospects continue to look bright. In addition to the Rs80bn set aside for Smart Cities, the government will drive demand by allocating Rs195bn for metro expansions and the BharatmalaPariyojana road plan. The National Infrastructure Pipeline (NIP) is expected to utilise Rs111 trillion during FY20-FY25, resulting in an 18% increase in government expenditure during FY14-FY24. Favourable macroeconomic conditions will drive cement sector growth in FY25. The government's commitment to infrastructure development, ongoing demand for housing amid growing urbanisation and increased home loan penetration (YTDFY24 - 11%) are all likely to drive cement demand. We expect the cement sector to grow by ~8%+ in FY25. Our NBIE coverage universe is expected to grow faster than the industry, by ~14% throughout the same period.

Exhibit 2: Aggressive capacity expansion @ 12% during FY23-FY25E

Company Name	Capacity (MTPA)			Capacity Growth(%)		Incremental capacity (mn mt)		Additional volume (mn mt)	
	FY23E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
ACC	36.1	39.3	41	9%	5%	3.2	1.8	5.4	1.8
Ambuja Cement(Consol)	67.5	76.8	87	14%	13%	9.3	10.2	4.7	14.5
Birla Corporation	20.0	20.0	23	0%	17%	0.0	3.4	1.9	1.9
Dalmia Bharat	41.1	46.6	53	13%	14%	5.5	6.7	2.8	4.4
Heidelberg Cement	6.3	6.6	7	5%	0%	0.3	0.0	0.4	0.1
JK Cement	23.7	25.2	26	6%	1%	1.5	0.3	2.7	1.7
JK Lakshmi Cement	15.4	15.5	17	1%	9%	0.1	1.4	0.8	1.1
Nuvoco Vistas	23.8	25.0	25	5%	0%	1.2	0.0	-0.1	0.5
Sagar Cements	10.1	10.1	10	0%	0%	0.0	0.0	0.4	0.3
Shree Cements	46.4	56.0	60	21%	6%	9.6	3.5	3.9	3.6
Star Cement	5.7	7.7	8	35%	0%	2.0	0.0	0.3	0.2
The Ramco Cements	22.0	22.9	23	4%	0%	0.9	0.0	3.6	1.0
Ultratech Cements	129.0	140.4	171	9%	21%	11.4	30.1	12.2	18.6
NBIE coverage	411	453	508	10%	12%	45.0	57.4	5.4	1.8
Other players	159	128	115	(19%)	0%	(33.8)	(1.8)	4.7	14.5
Total Industry	569.8	581	623	2%	10%	11.2	55.6	1.9	1.9

Source: Nirmal Bang Institutional Equities Research

As of FY24, the current cement capacity of the industry stands at 581MTPA, with an anticipated growth of 10% in FY25, taking it higher to ~637MTPA. The bulk of this expansion is attributed to the top five players, particularly Ultratech, Ambuja+ACC and Dalmia Bharat, which are expected to add 30MTPA, 12MTPA and 7MTPA, respectively in FY25. Additionally, regional players like Star Cement would have added ~2MTPA by FY24-end. No further significant additions from other players are anticipated in FY25. This trend signifies the consolidation theme prevalent in the Indian cement sector, with large players improving their market presence through substantial capacity expansions

Exhibit 3: Consolidation to pick up pace in the coming years

Targets	Capacity (MTPA)	North	%	South	%	West	%	East	%	Central	%	Reason for Merger
Nuvoco Vistas	25	6	24%	0	0%	0	0%	19	76%	0	0%	High Debt
Penna Cement	10	0	0%	10	100%	0	0%	0	0%	0	0%	High Debt
India Cements	16	2	13%	13	81%	1	6%	0	0%	0	0%	High Debt
Chettinad cement	15	0	0%	15	100%	0	0%	0	0%	0	0%	Regional concentration
JSW Cement	16	0	0%	8	50%	3	19%	5	31%	0	0%	Diversified business group
Kesoram cement	11	0	0%	11	100%	0	0%	0	0%	0	0%	Acquired by Ultratech cement
Orient Cement	9	0	0%	7	78%	2	22%	0	0%	0	0%	Regional concentration
Sagar Cements	10	0	0%	8	75%	0	0%	2	15%	1	10%	Regional concentration
Zuari cement	7	0	0%	6	86%	1	14%	0	0%	0	0%	International Parent
Heidelberg Cement	6	0	0%	0	0%	0	0%	0	0%	6	100%	International Parent
Sanghi Industries	6	0	0%	0	0%	6	100%	0	0%	0	0%	Acquired by Ambuja Cement
Vardharaj	6	0	0%	0	0%	6	100%	0	0%	0	0%	High Debt
Burnpur Cement	1	0	0%	0	0%	0	0%	1	100%	0	0%	Acquired by Ultratech cement
Mangalam cement	4	4	100%	0	0%	0	0%	0	0%	1	25%	High Debt
Jaypee cement	9	0	0%	0	0%	0	0%	0	0%	9	100%	Deal in limbo with Dalmia Bharat
Total	151	12	8%	68	45%	14	9%	27	18%	17	11%	

Source: Nirmal Bang Institutional Equities Research

An illustration of the consolidation trend in the Indian cement industry is Ultratech's recent acquisition of 10.8MTPA capacity from Kesoram Industries. This action follows Ambuja's 6.1MTPA-capacity acquisition of Sanghi Cement, reflecting the sector's ongoing tendency towards consolidation.

Considerable attention must also be paid to the 16MTPA strained assets of Bheema Cement, Vardraj Cement and the Cement Corporation of India. These assets serve as an incentive for leading companies to enhance their market positions via acquisitions. Concurrently, there are plans for greenfield expansions as cement companies consider expanding their production capacity by an additional 150-160MTPA in the coming five years. Ultratech, which currently has a capacity of ~149MTPA (includes Kesoram assets), intends to boost its installed capacity to 200MTPA by the end of FY28. Shree Cement intends to increase capacity to 80MTPA by FY30 while Ambuja intends to increase capacity to 140MTPA by FY28.

The combined share of the top four companies by capacity in the sector's total capacity has risen to ~53%. This is anticipated to increase further as the major players expand through consolidation. The cement capacity held by small and medium enterprises, which includes notable companies such as Heidelberg Cement and Nuvoco Vistas, is estimated to be 165MTPA. Consequently, the prospects for additional acquisitions continue to be higher.

Exhibit 4: Improvement in CU (%) expected

Company Name	Capacity Utilisation (%)		
	FY23E	FY24E	FY25E
ACC	85%	92%	92%
Ambuja Cement(Consol)	81%	77%	85%
Birla Corporation	79%	88%	83%
Dalmia Bharat	63%	61%	62%
Heidelberg Cement	70%	74%	74%
JK Cement	68%	74%	80%
JK Lakshmi Cement	70%	75%	75%
Nuvoco Vistas	79%	75%	77%
Sagar Cements	48%	52%	55%
Shree Cements	69%	64%	66%
Star Cement	60%	48%	50%
The Ramco Cements	68%	81%	85%
Ultratech Cements	82%	84%	80%
NBIE coverage	75%	75%	76%
Other players	46%	59%	54%
Industry average	67%	72%	72%

Source: Nirmal Bang Institutional Equities Research

Exhibit 5: Region-wise capacity Utilisation (%)

	Capacity Utilization (%)		
	FY23	FY24E	FY25E
North	72%	78%	82%
South	67%	73%	75%
East	70%	72%	68%
West	93%	100%	104%
Central	85%	93%	80%

Source: Nirmal Bang Institutional Equities Research

We anticipate an improvement in capacity utilization for the cement industry, rising from 67% in FY23 to ~72% by the end of FY24, despite the ongoing capacity expansions by large players, driven by robust demand. Within our coverage universe, we expect a slightly higher utilization rate of ~75% by the end of FY24. Regionally, we foresee the Western region operating at near full capacity, with all regions experiencing an uptick in capacity utilization in FY24.

The interregional flow suggests that the bulk of output is consumed within the region where it is produced, with some migration across regions. Approximately 65% of North India production is consumed locally and remaining is supplied to Central and Western markets. In the East, 50% output is dispersed, with 45% consumed locally and 5% supplied to Western markets. Meanwhile, 15% of the Western output is supplied to the South and Central regions, which consume 3% and 12%, respectively. Furthermore, 20% of cement output in the East is sent to Central markets, while 10% is sent to the North. This trend will continue until FY25 as corporations concentrate on warehouse optimization and lowering transportation expenses.

The cement industry has grappled with revenue challenges due to high logistics costs, leading to operational constraints and under-utilized capacity at cement plants. Inefficient logistics and elevated freight expenses, particularly for plants located far away from limestone resources, have hindered optimal production. Data from 2019 indicates significant idle capacity, amounting to approximately one-third of total production capacity. However, implementation of the National Logistics Policy offers a promising solution by aiming to reduce logistics costs from 14%-18% of GDP to global benchmarks of 8% by 2030-end. Enhanced logistics infrastructure and supply chain efficiency are expected to mitigate this significant cost burden, thereby improving profitability within the cement sector and reducing plant idle time. Moreover, the policy's focus on enhancing local transportation networks can facilitate access to previously untapped markets, fostering increased sales for cement companies. In future, the utilisation is expected to improve, driven by an improved access to farther markets due to the Gati Shakti scheme at lower cost of transportation.

With the completion of projects like Gati Shakti and Dedicated Cement Corridors (DCC), which aim to improve connectivity and transportation infrastructure, cement companies would have the opportunity to expand their reach to further markets in future. These projects would help to optimize logistics by reducing lead distance by 5-7% (15-20kms) through integration of various transportation modes. This optimization could thus lead to reduced transportation costs, faster project execution, improved inventory management and better capacity utilisations for cement manufacturers.

Exhibit 6: Prices under pressure as the quarter is driven by volume

Region wise price movement						
Trade PPC - WSP/bag(Rs)						
Eastern Region	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ	Change
Kolkata	364	359	357	320	(37)	(10%)
Patna	384	374	381	329	(52)	(14%)
Dhandbad	364	374	379	335	(44)	(12%)
Chattisgarh	309	325	314	298	(16)	(5%)
Bhubaneshwar	339	363	373	351	(22)	(6%)
Ranchi	354	348	335	297	(38)	(11%)
Western Region						
Ahmedabad	378	372	387	380	(7)	(2%)
Mumbai	378	372	383	373	(10)	(3%)
Pune	338	332	343	330	(13)	(4%)
Surat	393	386	388	381	(6)	(2%)
Northern Region						
Jaipur	352	349	355	345	(10)	(3%)
Delhi	360	357	362	354	(8)	(2%)
Ghaziabad	375	372	377	364	(13)	(3%)
Central Region						
Lucknow	385	379	383	381	(2)	(1%)
Agra	360	354	360	353	(6)	(2%)
Aligarh	370	364	373	371	(1)	(0%)
Meerut	385	379	384	370	(14)	(4%)
Muradabad	390	384	392	389	(3)	(1%)
Bhopal	364	359	357	335	(21)	(6%)
Indore	364	359	359	340	(18)	(5%)
Southern Region						
Bangalore	394	394	393	374	(19)	(5%)
Chennai	332	324	325	304	(20)	(6%)
Vishakhapatnam	353	349	350	315	(35)	(10%)
Hyderabad	324	324	335	347	13	4%
Cochin	354	354	362	368	6	2%
North East Region						
Guwahati	457	449	452	444	(8)	(2%)
Shillong	487	479	482	471	(11)	(2%)

Source: Nirmal Bang Institutional Equities Research

Our channel checks indicate sharp rollbacks in cement prices due to subdued demand in the current quarter, with average pan-India prices declining by 4% QoQ to Rs358 in 4QFY24. Prices in the Eastern region have been affected the most, with average prices declining by 10% QoQ to Rs322 in 4QFY24. We expect the prices to remain flat in FY24 and envision a similar trend in FY25.

Trends in operating cost

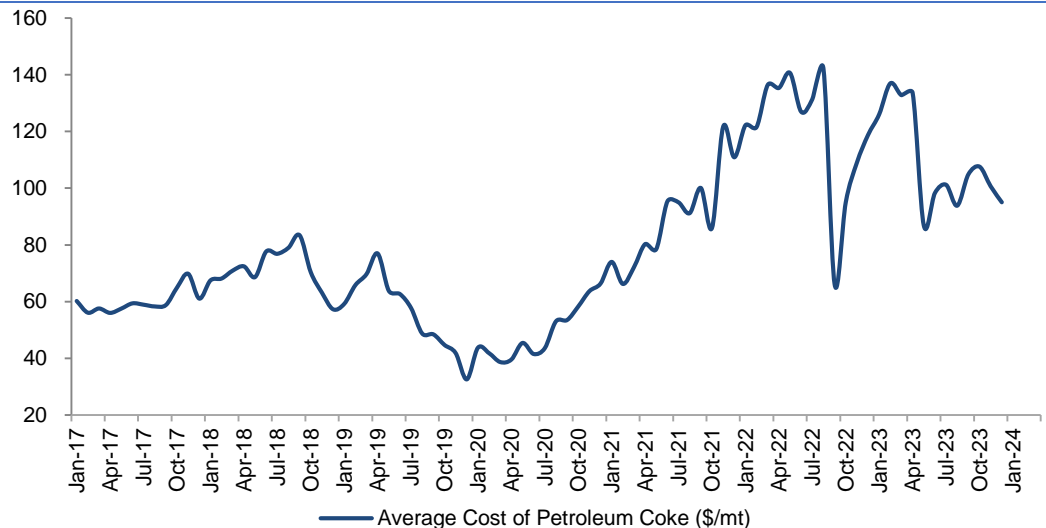
Exhibit 7: Average price of imported coal on a declining trend from its peak of US\$430/mt in Feb'22 to US\$130/mt in Feb'24



Average Price of S.African and Australian Coal (US\$/mt)

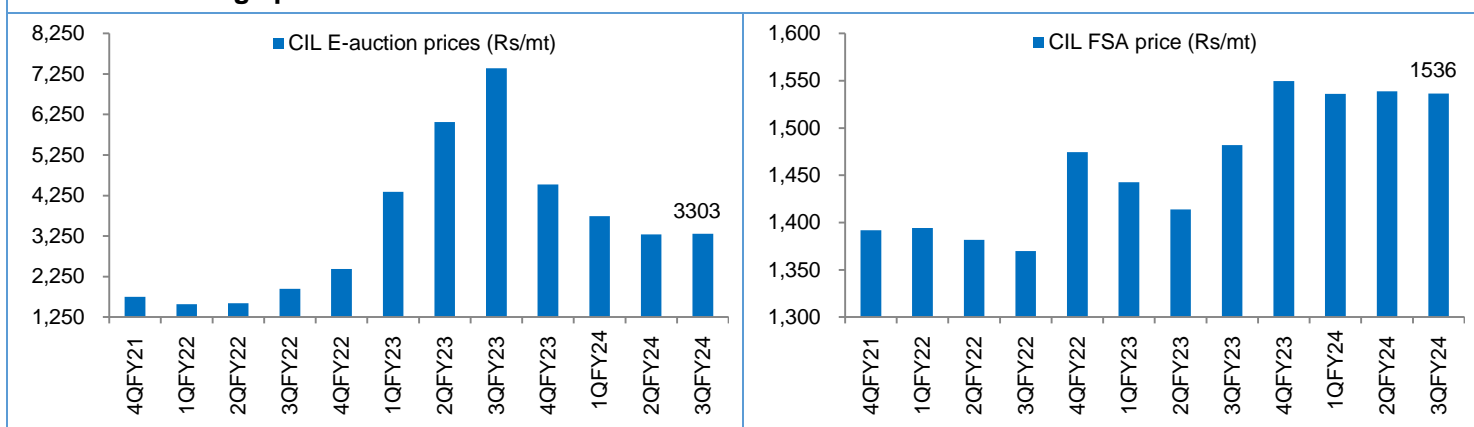
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 8: Average price of Petcoke has declined by 20% YoY as of Jan'24



Average Cost of Petroleum Coke (\$/mt)

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 9: Average prices of domestic coal to remain stable


Source: Coal India, Nirmal Bang Institutional Equities Research

Power & Fuel costs have been declining, with imported coal prices remaining stable at ~US\$130/T as of Feb'24. Additionally, Pet Coke prices have declined by 20% YoY, reaching US\$96/T as of Jan'24. Meanwhile, domestic coal prices have remained steady during this period.

Increase in EBITDA/T likely to be capped due to price erosion

While volume will drive the industry's topline growth in 4QFY24, the effect of price declines will be offset by lower Power & Fuel costs. The sequential improvement in EBITDA/T might be ~Rs0 to Rs100/T owing to fixed cost absorption through higher volume. NBIE predicts that Ambuja (Consolidated), Star cement, Birla Corp and JK Lakshmi would benefit from greater freight, incentives and raw material costs in 4QFY24, resulting in higher EBITDA/T.

Exhibit 10: NBIE coverage financial summary

Company	CMP (Rs)	Rating	TP (Rs)	MCap (Rsbn)	Revenue (Rsmn)		EBITDA Margin (%)		EPS (Rs)		EV/MT (X)		EV/EBITDA (X)		RoE (%)		RoCE (%)	
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY25E	FY25E	FY25E	FY25E
ACC	2,450	Buy	2,579	460.1	1,97,885	2,11,861	15.7	16.4	104.6	119.2	163.9	156.6	14.7	13.2	14%	16%		
Ambuja Cement	595	Buy	915	1,181.6	3,50,452	4,45,225	20.9	25.9	25.4	39.8	174.8	151.5	15.1	9.5	17%	20%		
Birla Corporation	1,418	Buy	1,841	109.2	96,231	1,03,755	14.8	18.8	55.2	106.5	90.1	81.9	10.2	7.5	12%	10%		
Dalmia Bharat	1,961	Buy	3,005	367.5	1,47,714	1,76,264	19.2	21.3	44.1	69.0	97.6	83.5	13.2	9.9	7%	10%		
Heidelberg Cement	192	Sell	166	43.6	24,878	24,734	15.1	18.1	8.7	8.9	75.3	75.3	10.8	9.1	14%	16%		
JK Cement	4,046	Buy	4,655	312.6	1,13,853	1,33,695	18.2	16.4	111.6	118.6	175.5	155.1	17.2	16.4	15%	11%		
JK Lakshmi Cement	861	Buy	1,193	101.3	69,276	79,462	14.9	16.1	40.9	53.4	90.3	84.9	12.1	9.8	17%	13%		
Nuvoco Vistas	308	Buy	432	109.8	1,08,672	1,19,868	15.0	16.1	4.4	10.9	69.5	65.5	9.2	7.4	4%	8%		
Sagar Cements	204	Accumulate	299	26.7	24,725	27,694	15.3	16.4	(0.5)	9.7	61.7	61.2	12.3	10.2	7%	7%		
Shree Cements	25,684	Buy	32,918	926.7	1,99,525	2,31,513	20.3	22.9	621.6	652.3	202.3	190.3	22.7	17.2	11%	19%		
Star Cement	225	Accumulate	192	90.9	29,135	32,602	19.9	22.6	7.9	9.5	93.2	85.6	16.5	12.9	13%	12%		
The Ramco Cements	809	Buy	1,173	190.6	93,317	1,03,381	17.3	18.0	19.0	26.2	128.3	130.0	14.7	12.9	8%	9%		
Ultratech Cements	9,601	Buy	11,669	2,821.0	7,00,069	9,28,689	17.7	23.0	232.3	442.9	261.0	205.1	22.6	13.0	19%	19%		

Source: Industry data, Nirmal Bang Institutional Equities Research

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