

15 March 2024

India | Equity Research | Sector Update

Cement

Cement prices dip to a two-year low; diesel price cut may go in vain

The current weakness in cement prices screams of elevated competitive intensity in the sector. After all, very rarely do prices plunge QoQ in Q4 (in fact they tend to rise QoQ) given it is peak construction season. Such is the magnitude of competition that prices have already slipped ~5% QoQ to a near two-year low. It will be unfair to blame low demand growth (viz. estimated to rise 3-6% in Q4FY24), as prices have slipped below the seasonally weak Q2FY24 levels. The sharp plunge has certainly set the stage for price recovery in Apr'24 (sans which there can be huge earnings cuts). However, pricing volatility may remain the order of the day given huge capacity additions. We prefer staying **NEUTRAL** on the sector. The ~2% reduction in diesel rates offers cost savings of a mere INR 10-15/t, and hence, may go in vain.

Dull pricing in a busy quarter

Cement prices have been in a downward spiral since Nov'23. The sharp hike attempted in Oct'23 helped tide Q3FY24 with prices rising >2% QoQ, even as the exit prices of Dec'23 were ~2% below the Q3 average. However, the dull pricing environment has continued even in the busiest quarter of the year (in Q4FY24). Successive price drops in January and February 2024 have led to current prices being ~6% lower vs. Q3FY24. Even as the crucial second fortnight of Mar'24 is yet to sail through (with odds of huge volume push to meet the year-end target, thereby impacting prices), the industry is already staring at ~5% QoQ drop in Q4FY24. Highest price fall is evident in east India (down ~10% vs Q3FY24), followed by a ~3-4% drop in other regions of north, south and west India.

Low demand need not shoulder the blame alone

As against the ~11-12% surge in H1FY24, demand growth slipped to ~3-4% in Q3FY24. Our interaction with regional sector experts and consultants point to demand possibly rising ~3-6% in Q4FY24. However, low demand growth alone can hardly be blamed for the price disappointment given current prices have slipped below Q2FY24 levels (which is a seasonally weak monsoon quarter) while the volumes for Q4FY24 are expected to be at least ~17-18% higher (versus Q2FY24). The only thing that possibly explains the pricing weakness is – elevated competitive intensity.

No reason for competitive intensity to die-down

The sharp dip has set the stage for price recovery in Apr'24. If prices fail to recover, it certainly dangles the knife over FY25E earnings – downgrade risk.

However, we expect the pricing environment to remain volatile owing to high supply intensity. As such, fresh cement capacity of ~61mtpa (~34mtpa clinker) and ramp-up of the acquired underutilised units – Sanghi Inds in west India (7% of region's capacity) and JP Associates' assets in central India (7% of region's capacity) – will likely keep a check on prices. Further, industry is set to add another 62mtpa cement (38mtpa clinker) capacity in FY26.

The ~2% cut announced in diesel rates is likely to generate savings of a mere INR 10-15/t (i.e. ~1% of EBITDA/t); hence, is rather a sentimental positive.

Given the odds, we prefer staying **NEUTRAL** on the sector.

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Diesel price cut of ~2% has potential to save a mere INR 10-15/t.

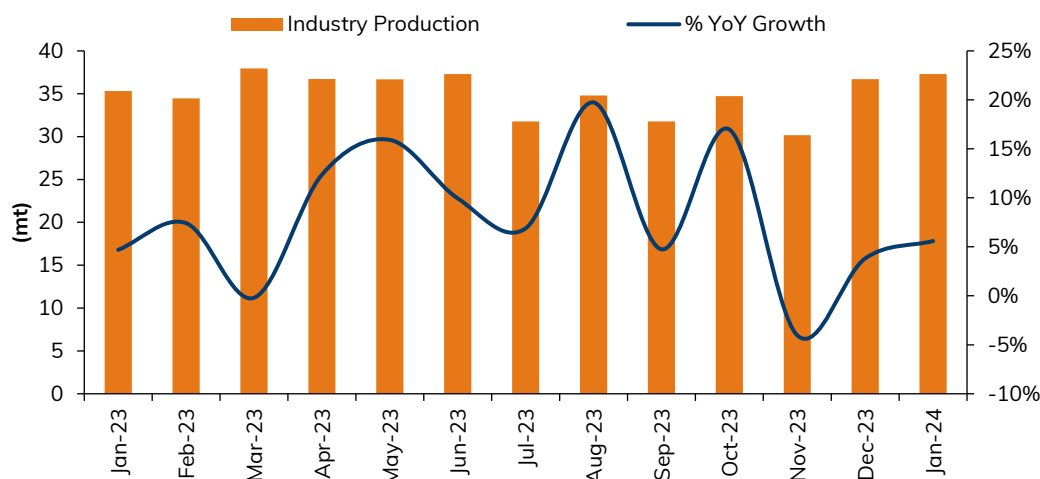
Exhibit 1: Expected cost savings from diesel price cut on our coverage universe

Companies	Freight Mix (%)				Q3FY24 freight/t (INR)	Expected cost savings from ~2% cut in diesel rates (INR/t) [^]
	Road	Rail	Sea	Total		
UltraTech Cement	74	24	2	100	1,325	13
ACC	68	32	-	100	1,082	10
Ambuja Cements	66	22	12	100	1,114	10
Shree Cement	88	12	-	100	1,095	13
The Ramco Cements	89	11	0	100	1,075	13
JK Cement	89	11	-	100	1,290	15
Nuvoco Vistas	63	37	-	100	1,550	13
Orient Cement	85	15	-	100	1,401	16

Source: I-Sec research, Company data; ^ Note: Diesel cost is assumed to be ~60% of the road freight.

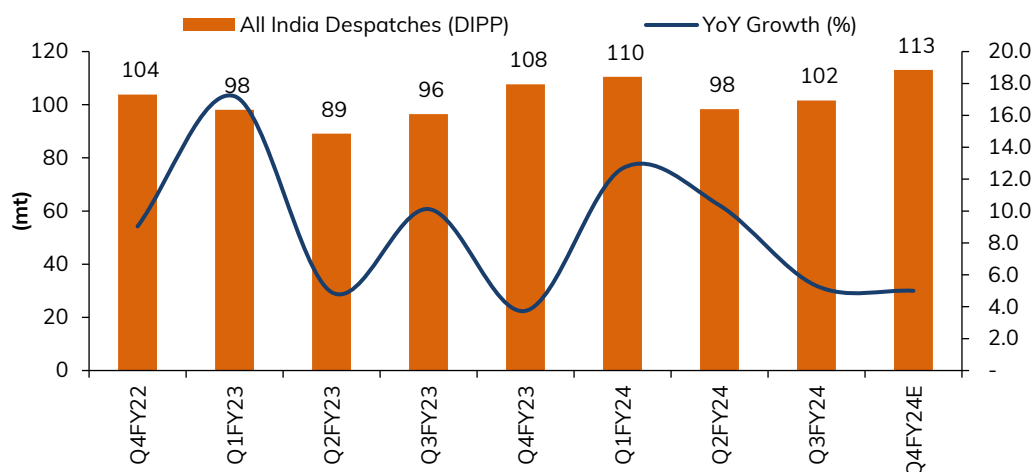
As per eight-core industries' data, all-India cement volumes in Jan'24 rose 5.6% YoY and odds are that Feb'24 may grow at a similar rate.

Exhibit 2: Monthly cement volume trend



Source: I-Sec research, Eight core industries data

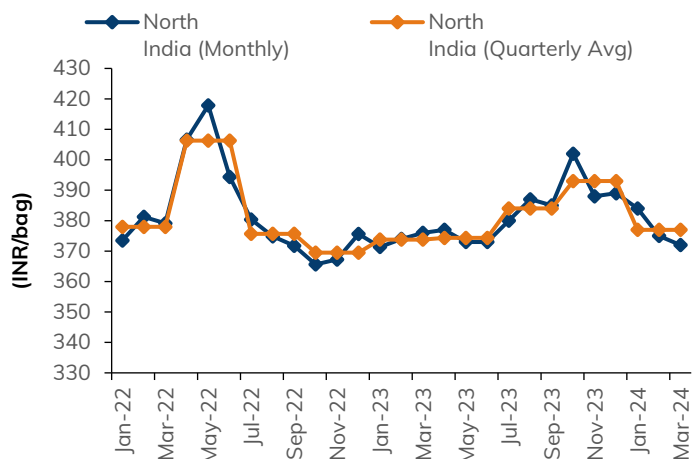
Exhibit 3: Q4FY24 demand expected to continue in slow lane



Source: I-Sec research, eight core industries data

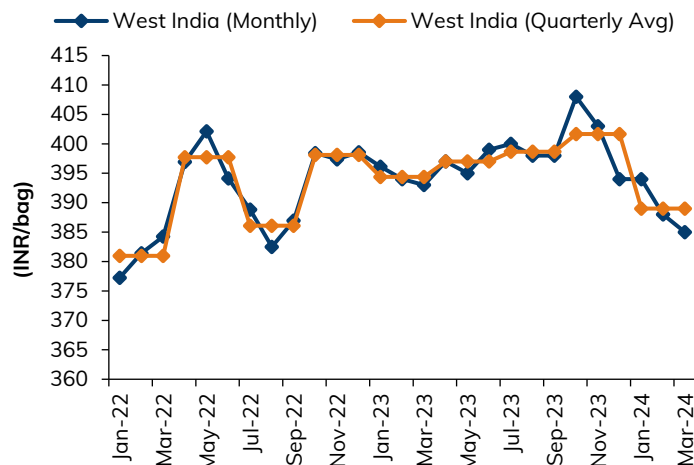
Cement prices have been slipping since Nov'23. Industry is staring at ~5% QoQ drop in Q4FY24 with east India being the worst hit – down ~10% QoQ.

Exhibit 4: North India price trend



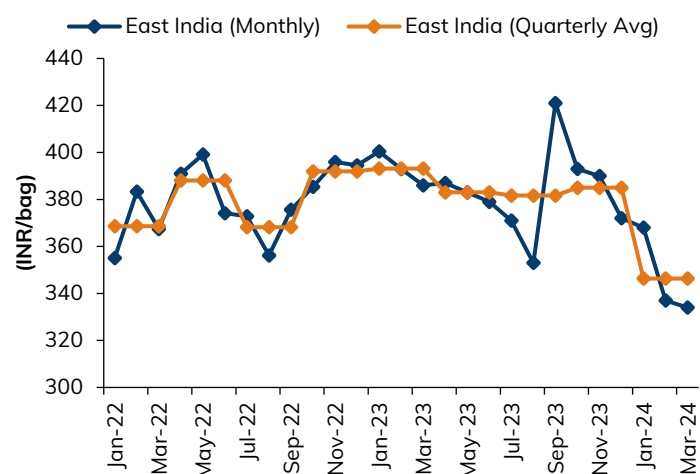
Source: I-Sec research

Exhibit 5: West India price trend



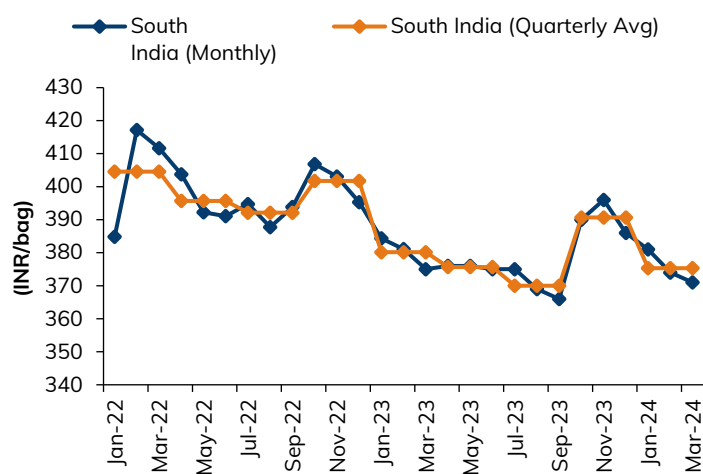
Source: I-Sec research

Exhibit 6: East India price trend



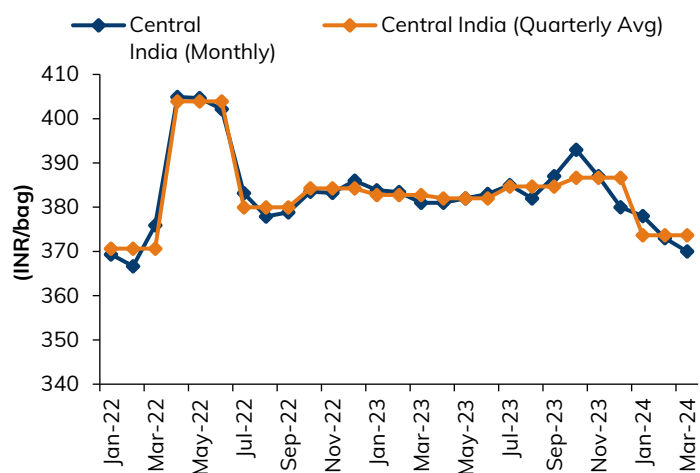
Source: I-Sec research

Exhibit 7: South India price trend



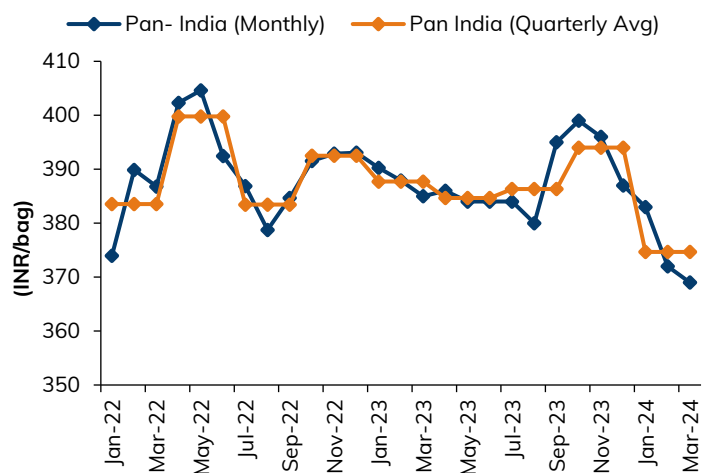
Source: I-Sec research

Exhibit 8: Central India price trend



Source: I-Sec research

Exhibit 9: All-India price trend



Source: I-Sec research

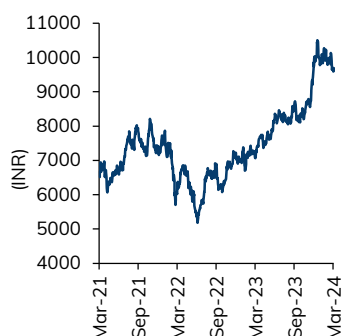
Exhibit 10: Valuation and recommendation table

Company	Rating	TP (INR)	EV/EBITDA (x)			EV/te (USD)			RoCE (pre-tax) (%)			RoE(%)		
			FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
UltraTech Cement	HOLD	10,411	21	17	15	236	207	191	15.8	18.3	18.3	12.8	14.8	14.6
Shree Cement	HOLD	29,489	20	17	15	194	198	155	15.4	16.3	17.1	12.2	12.9	13.5
Ambuja Cements	BUY	831	20	18	14	214	215	181	11.7	11.5	12.2	12.9	10.4	10.9
ACC	BUY	2,931	14	12	11	144	133	126	17.9	18.7	18.8	13.0	13.7	13.7
JK Cement	BUY	5,131	16	14	13	180	161	162	17.2	19.3	18.6	17.0	18.6	16.7
India Cements	SELL	130	55	17	12	78	77	73	-0.1	4.0	6.0	-3.2	1.6	4.2
Ramco Cements	BUY	1,072	14	11	9	127	123	112	8.3	10.8	12.6	6.8	9.9	12.6
Orient Cement	HOLD	251	8	7	7	60	66	54	10.0	11.4	10.2	12.9	14.8	13.2
Nuvoco Vistas	HOLD	373	9	7	6	73	68	62	5.6	8.1	9.2	1.8	4.8	6.3
Grasim Industries	BUY	2,501	12	8	8	-	-	-	4.3	5.1	5.0	3.4	3.6	3.5

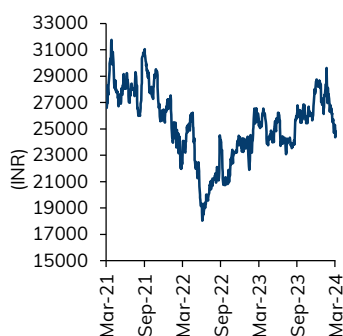
Source: I-Sec research, Company data

Price charts

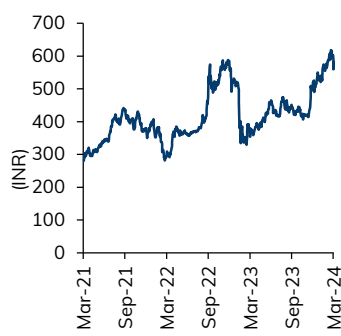
UltraTech Cement



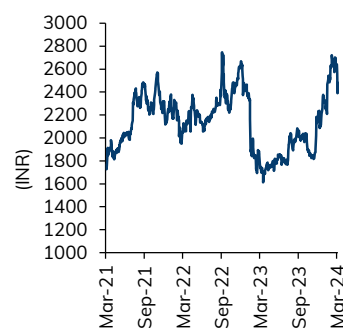
Shree Cement



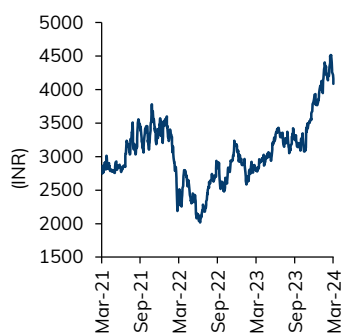
Ambuja Cements



ACC



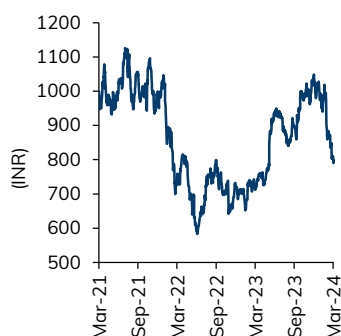
JK Cement



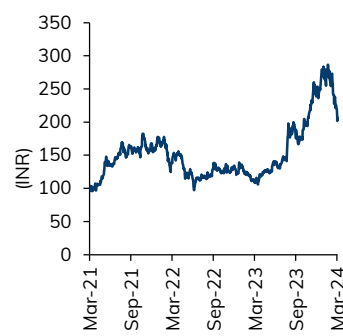
India Cements



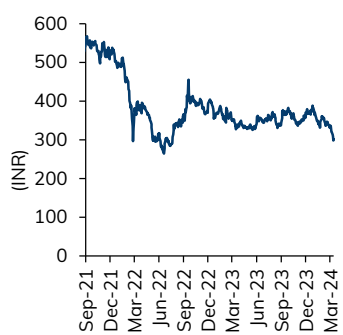
Ramco Cements



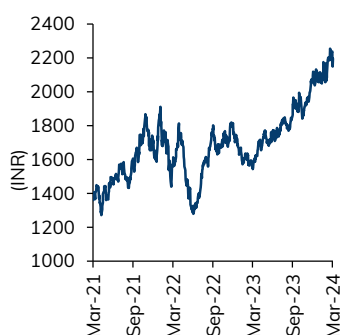
Orient Cement



Nuvoco Vistas



Grasim Industries



Source: Bloomberg

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