Cement

An unusual 'busy season'

Very rarely do cement prices plunge QoQ in Q4 (in fact they tend to rise) given the peak construction activity. However, Q4FY24 has been an unusual 'busy season' with prices likely to have plunged >5% QoQ even as industry volumes made a decent come back (estimated to have risen 6-7% YoY vs ~3-4% growth in Q3FY24). The price weakness (Mar'24 exit being >7% lower vs Q3FY24) screams of elevated competitive intensity in the sector and has set the stage for price recovery in Apr'24 (News link-1, News link-2) sans which there can be significant earnings cut. However, pricing volatility may remain the order of the day given the huge capacity addition amidst industry-wide race for capacity share. We prefer to remain **Neutral** on the sector.

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Volumes and prices in stark contrast

We estimate industry volumes in Q4FY24 to have grown ~6-7% vs. >9% for 9MFY24 (pegging volume growth for FY24E at ~8-9%). Despite Q4 being the highest volume quarter for the year, cement prices plunged >5% QoQ (at a two-year low) owing to the aggressive fight for market share by incumbents. As per our channel checks, east India was the worst affected region with prices coming off >10% QoQ while west and central India witnessed least drop of ~3-4% QoQ. The price drop also suggests channel filling ahead of demand to meet volume targets.

EBITDA/t to slip QoQ

For our coverage companies, we estimate aggregate volume to rise ~8% YoY with highest growth of ~15% for Ambuja Cements (on consolidated basis; owing benefits of Sanghi Inds acquisition and a low base) and a similar ~15% jump for JK Cement (owing to ramp of new capacity in central India). However, the realisation dip of >5% is slated to offset the benefits of low fuel cost (~INR 30-40/t) and also the favourable impact on fixed cost due to QoQ volume jump (of ~18%). As a result, we project coverage EBITDA/t to slip ~14% QoQ.

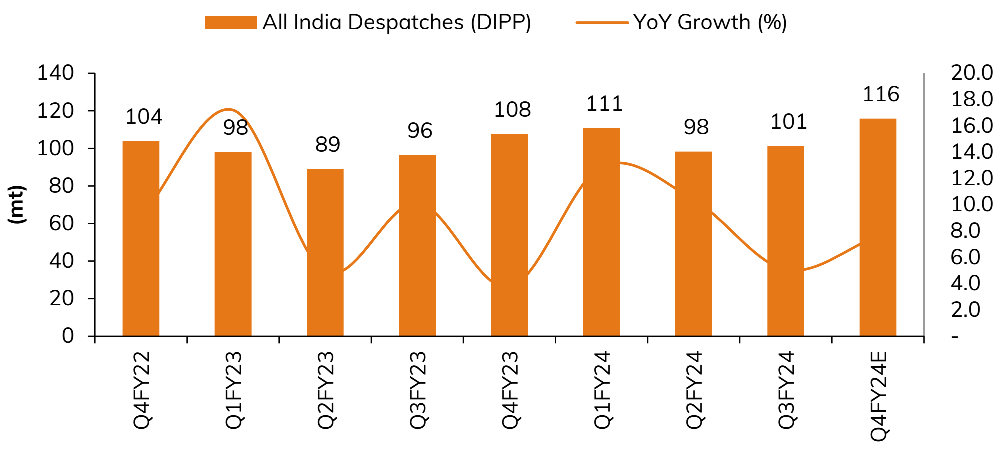
All eyes on Apr/May'24 price hikes

The weak exit for Mar'24 and the onset of a new fiscal has set the stage for a cement price recovery in Apr/May'24. We view these hikes as much warranted to meet the current earnings expectations – sans which there looms a risk of significant downgrades.

However, we believe pricing environment may continue to be volatile given – a) odds of slow volume offtake in post-election year of FY25 (at 6-7% vs 9% in FY24); b) fresh capacity addition of a mammoth ~61mtpa cement (~34mtpa clinker) in FY25E and another ~62mtpa cement (~38mtpa clinker) in FY26E; c) ramp-up of the acquired underutilised units – Sanghi Industries in west India (7% of region's capacity) and JP Associates' assets in central India (7% of region's capacity) – amidst the industry-wide race for market/capacity share.

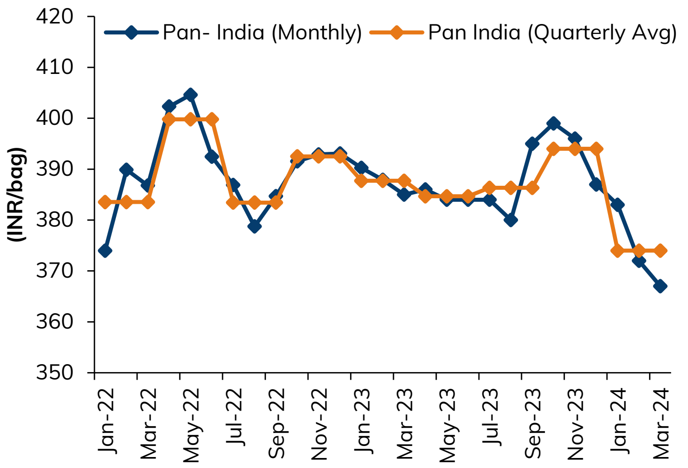
With a keen watch on price trends in the near term, we prefer to stay **Neutral** on the sector. We believe **Ambuja Cements** (our top pick) has the recipe to outperform peers given the scope of improving cost efficiency and promoter fund infusion offering odds of industry-superior capacity growth.

Exhibit 1: Q4FY24 volumes recover to a decent 6-7% growth



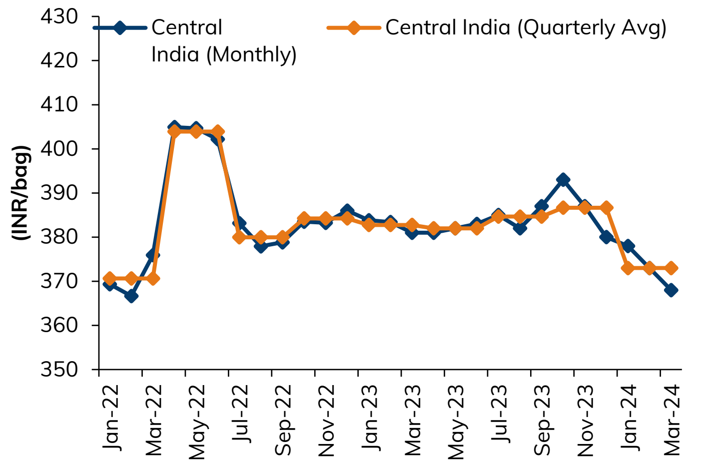
Source: DIPP, I-Sec research

Exhibit 2: Cement prices trend weak – across regions



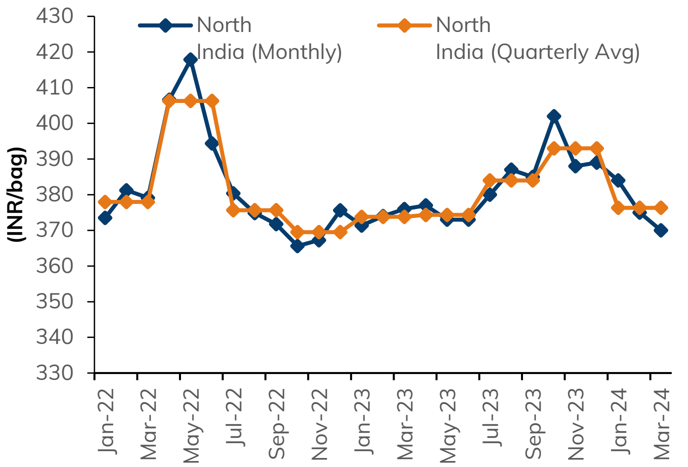
Source: I-Sec research

Exhibit 3: Central India price trend



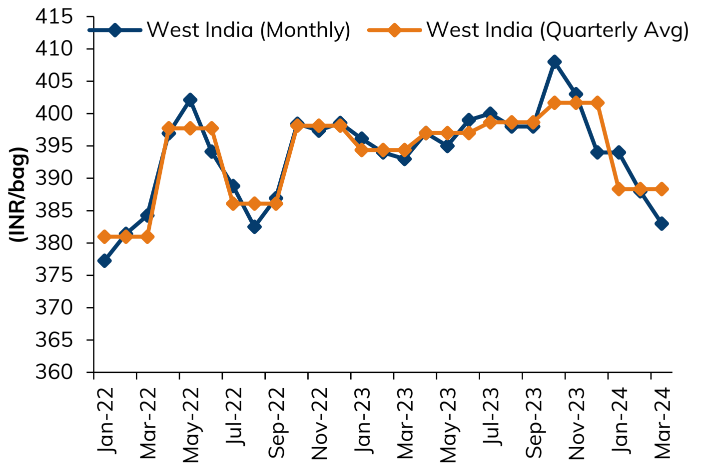
Source: I-Sec research

Exhibit 4: North India price trend



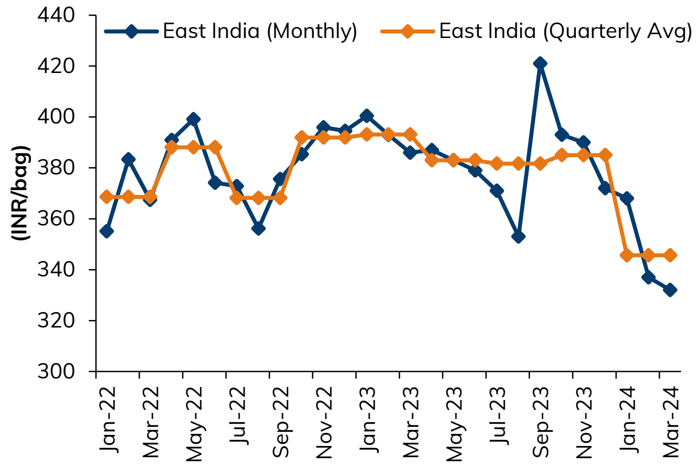
Source: I-Sec research

Exhibit 5: West India price trend



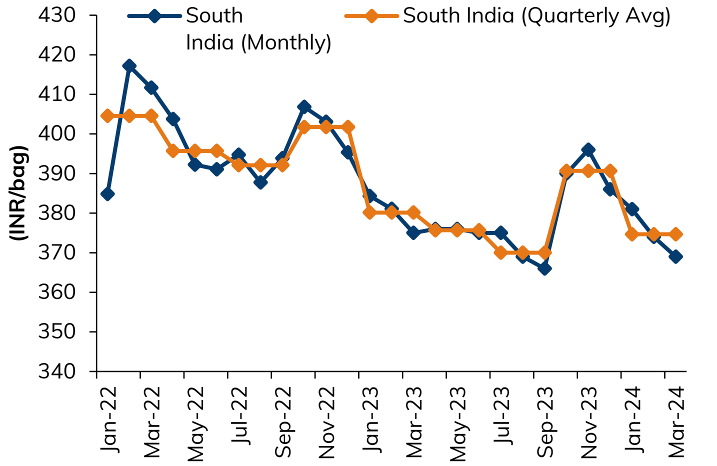
Source: I-Sec research

Exhibit 6: East India price trend



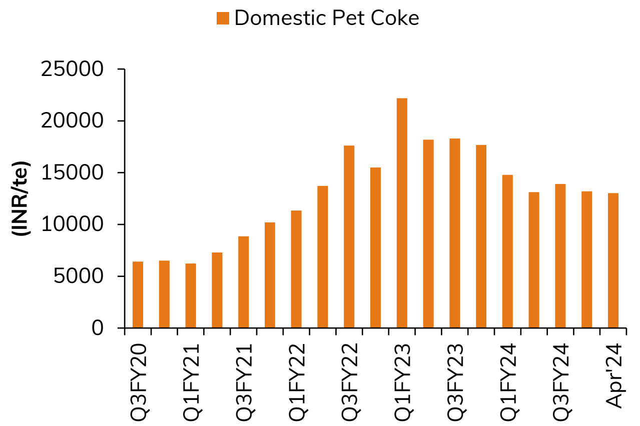
Source: I-Sec research

Exhibit 7: South India price trend



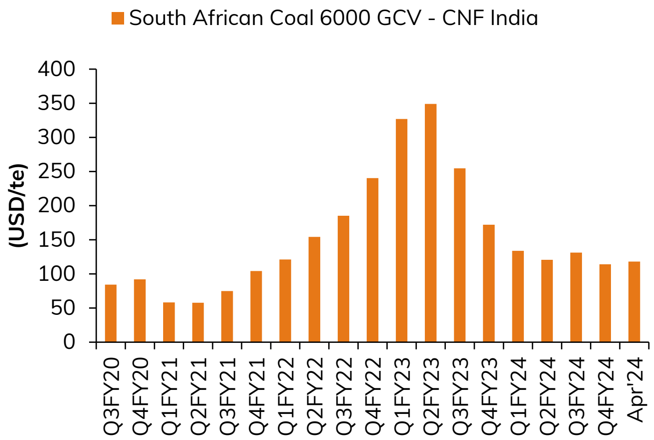
Source: I-Sec research

Exhibit 8: Fuel spot rates offer limited scope...



Source: Industry data, I-Sec research

Exhibit 9: ... of major cost declines going ahead



Source: Industry data, I-Sec research

ICICI Securities

Exhibit 10: Strong capacity addition on cards

All India-(mtpa)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Installed capacity - Cement	519	541	568	595	635	695	757
Annual additions (mtpa)	*15*	*22*	*26*	*27*	*40*	*61*	*62*
Installed capacity - Clinker	332	343	352	378	395	429	467
Annual additions (mtpa)	*8*	*11*	*9*	*26*	*17*	*34*	*38*
Cement consumption	330	322	348	386	417	442	473
Growth (%)	**-2.4%**	**-2.5%**	**8.1%**	**11.0%**	**8.0%**	**6.0%**	**7.0%**
Cement production	**330**	**322**	**348**	**386**	**417**	**442**	**473**
Growth (%)	**-2.4%**	**-2.5%**	**8.1%**	**11.0%**	**8.0%**	**6.0%**	**7.0%**
C:C Ratio	**1.36**	**1.37**	**1.38**	**1.40**	**1.41**	**1.42**	**1.42**
Clinker production	243	235	252	275	295	312	332
Growth (%)	-2.5%	-3.0%	7.0%	9.0%	7.3%	5.7%	6.5%
Cement utilisation (%)	64.5%	60.7%	62.7%	66.4%	67.8%	66.4%	65.1%
Clinker utilisation (%)	**73.9%**	**69.7%**	**72.5%**	**75.2%**	**76.3%**	**75.7%**	**74.2%**

Source: I-Sec research, Company data

Exhibit 11: Quarterly summary

Company	Sales			EBITDA			PAT		
	JFM '24*	% chg		JFM '24*	% chg		JFM '24*	% chg	
(INR mn)		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
Ultratech Cement	1,93,461	4.2	15.6	35,841	7.9	10.1	20,038	20.0	12.9
ACC	51,552	7.6	4.8	7,869	68.8	-12.9	4,460	88.5	-15.5
Ambuja Cement	89,138	11.9	9.7	17,568	41.8	1.4	9,548	48.0	-1.5
Shree Cement	48,372	1.1	-1.3	10,460	17.2	-15.2	5,852	7.1	-20.3
India Cements	12,995	-11.0	20.1	528	NA	7.6	-419	NA	NA
JK Cement	29,990	12.6	7.7	5,369	47.7	-11.8	2,392	71.6	-17.4
Ramco Cements	24,598	-4.3	16.8	4,407	6.8	11.5	1,236	-18.9	32.4
Orient Cement	9,303	6.2	23.8	1,531	9.8	32.7	763	13.3	69.6
Nuvoco Vistas	28,784	-1.7	18.9	4,447	16.9	8.4	607	-69.8	95.6
Grasim	63,791	-4.0	-0.3	4,808	12.9	-8.0	1,462	56.3	-38.1
Total (ex-Grasim)	**4,88,193**	**4.8**	**11.4**	**88,020**	**22.7**	**1.1**	**44,476**	**29.3**	**-0.0**

Source: I-Sec research, Company data; **JFM'24E*:** Jan-Mar'24

Exhibit 12: Our current coverage recommendation and valuation matrix

Company	Rating	TP (INR/sh)	EV/EBITDA (x)			EV/te (USD)			RoE(%)		
			FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
UltraTech Cement	HOLD	10,411	22	17	16	244	214	197	12.8	14.8	14.6
Shree Cement	HOLD	29,489	22	18	16	207	211	165	12.2	12.9	13.5
Ambuja Cements	BUY	831	22	20	15	230	233	196	12.9	10.4	10.9
ACC	BUY	2,931	15	13	11	154	141	135	13.0	13.7	13.7
JK Cement	BUY	5,131	17	15	14	190	170	171	17.0	18.6	16.7
India Cements	SELL	130	58	18	13	83	81	78	-3.2	1.6	4.2
Ramco Cements	BUY	1,072	15	12	10	134	130	118	6.8	9.9	12.6
Orient Cement	HOLD	251	9	8	8	64	70	56	12.9	14.8	13.2
Nuvoco Vistas	HOLD	373	10	7	6	78	72	66	1.8	4.8	6.3
Grasim Industries	BUY	2,501	15	10	10	-	-	-	3.4	3.6	3.5

Source: I-Sec research, Company data

Exhibit 13: Quarterly Snapshot Q4FY24: Earnings preview

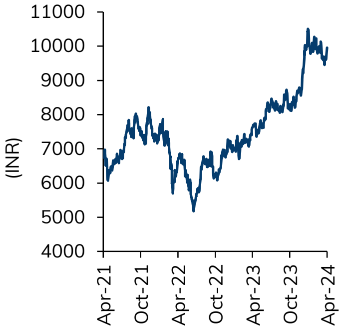
Particulars (INR mn)	Q4FY24E	YoY (%)	QoQ (%)	Q4FY23	Q3FY24	Comments
UltraTech Cement (Consol)						
Total volumes (mt)	33.6	6.2	23.0	31.7	27.3	We expect UltraTech Cement volumes to grow ~6% YoY (up ~23% QoQ) on a consolidated basis. We estimate the blended EBITDA/t to dip ~10% QoQ to INR 1,066 assuming cement realisation drop of ~5% QoQ and a marginal decline of INR 30/t QoQ in fuel cost.
Blended realisation (INR/te)	5,756	(1.9)	(6.1)	5,865	6,127	
Revenue, net	1,93,461	4.2	15.6	1,85,624	1,67,400	
EBITDA	35,841	7.9	10.1	33,225	32,546	
PAT	20,038	20.0	12.9	16,701	17,748	
EBITDA (INR/te)	1,066	1.6	(10.5)	1,050	1,191	
EBITDA Margin (%)	18.5	63bps	-92bps	17.9	19.4	
PAT Margin (%)	10.4	136bps	-24bps	9.0	10.6	
Shree Cement						
Total volumes (mt)	9.4	7.0	6.2	8.8	8.9	We estimate Shree Cement volumes to rise ~7% YoY (up ~6% QoQ). Assuming ~5% QoQ slip in realisations, estimate the cement EBITDA/t to come-off ~23% QoQ (but still up >12% YoY) to INR 1,043.
Realisation (INR/te)	4,806	(2.0)	(5.0)	4,902	5,058	
Total revenue, net	48,372	1.1	(1.3)	47,851	49,008	
Total EBITDA	10,460	17.2	(15.2)	8,925	12,337	
Total PAT	5,852	7.1	(20.3)	5,462	7,342	
EBITDA (INR/te)	1,043	12.1	(22.7)	930	1,348	
EBITDA Margin (%)	21.6	297bps	-355bps	18.7	25.2	
PAT Margin (%)	12.1	68bps	-288bps	11.4	15.0	
ACC						
Total volumes (mt))	9.7	14.3	9.1	8.5	8.9	We estimate ACC's volumes to rise ~14% YoY (up 9% QoQ). Assuming ~5% QoQ realisation drop, estimate EBITDA/t to fall ~20% QoQ (up ~48% YoY on a low base) to INR 810.
Realisation (INR/te)	5,307	(5.8)	(4.0)	5,636	5,526	
Revenue	51,552	7.6	4.8	47,908	49,183	
EBITDA	7,869	68.8	(12.9)	4,663	9,032	
PAT	4,460	88.5	(15.5)	2,366	5,275	
EBITDA (INR/te)	810	47.7	(20.2)	549	1,015	
EBITDA Margin (%)	15.3	553bps	-310bps	9.7	18.4	
PAT Margin (%)	8.7	371bps	-207bps	4.9	10.7	
Ambuja Cement (Consol)						
Total volumes (mt)	16.2	15.2	15.2	14.1	14.1	Ambuja Cements' (consolidated) volumes are estimated to surge ~15 (both on a YoY and QoQ basis). Assuming realisation dip of ~5% QoQ, expect EBITDA/t to come-off ~12% QoQ (up ~12% YoY) to INR 1,081.
Realisation (INR/te)	5,487	(2.9)	(4.8)	5,650	5,765	
Revenue	89,138	11.9	9.7	79,660	81,288	
EBITDA	17,568	41.8	1.4	12,390	17,321	
PAT	9,548	48.0	(1.5)	6,449	9,696	
EBITDA (INR/te)	1,081	23.1	(12.0)	879	1,228	
EBITDA Margin (%)	19.7	415bps	-160bps	15.6	21.3	
PAT Margin (%)	10.7	262bps	-122bps	8.1	11.9	
India Cements						
Total volumes (mt)	2.5	(11.5)	24.2	2.8	2.0	We expect India Cement volumes to slip ~12% YoY while realisations are expected to dip by ~3% QoQ. We estimate EBITDA/t to stay muted at ~ INR 214 vs a loss of INR 160 in Q4FY23 and a positive INR 247 in Q3FY24.
Realisation (INR/te)	5,272	0.5	(3.3)	5,244	5,450	
Revenue, net	12,995	(11.0)	20.1	14,605	10,819	
EBITDA	528	NA	7.6	(445)	490	
PAT	(419)	NA	NA	(2,178)	(165)	
EBITDA (INR/te)	214	NA	(13.3)	(160)	247	
EBITDA Margin (%)	4.1	NA	(10.4)	(3.0)	4.5	
PAT Margin (%)	(3.2)	NA	NA	(14.9)	(1.5)	
The Ramco Cements						
Total volumes (mt)	4.9	4.5	22.9	4.7	4.0	Ramco Cements volumes are expected to rise ~5% YoY (up ~23% QoQ) while realisation is expected to slip ~5% QoQ. EBITDA/t is expected to stay flattish on a YoY basis (down ~9% QoQ) to INR 897.
Realisation (INR/te)	5,008	(8.4)	(5.0)	5,467	5,272	
Revenue, net	24,598	(4.3)	16.8	25,697	21,061	
EBITDA	4,407	6.8	11.5	4,128	3,954	
PAT	1,236	(18.9)	32.4	1,524	934	
EBITDA (INR/te)	897	2.2	(9.3)	878	990	
EBITDA Margin (%)	17.9	185bps	-86bps	16.1	18.8	
PAT Margin (%)	5.0	-91bps	59bps	5.9	4.4	
Orient Cement						
Total volumes (mt)	1.79	4.0	28.3	1.72	1.39	We estimate Orient Cement's volumes to rise ~4% YoY (up ~28% QoQ) while realisations may slip ~3.5% QoQ. EBITDA/t at INR 857 is projected to rise ~6% YoY/3% QoQ.
Realisation (INR/te)	5,209	2.1	(3.5)	5,099	5,397	
Revenue, net	9,303	6.2	23.8	8,760	7,513	
EBITDA	1,531	9.8	32.7	1,395	1,154	
PAT	763	13.3	69.6	674	450	
EBITDA (INR/te)	857	5.6	3.4	812	829	
EBITDA Margin (%)	16.5	54bps	110bps	15.9	15.4	
PAT Margin (%)	8.2	51bps	221bps	7.7	6.0	

Nuvoco Vistas (Consol)						We estimate Nuvoco Vistas' volume to decline ~2% YoY (up ~27% QoQ) while realisation may slip ~6% QoQ. EBITDA/t is projected to fall ~15% QoQ (up ~19% YoY) to INR 873.
Total volumes (mt)	5.1	(2.0)	26.8	5.2	4.0	
Cement Realisation (INR/te)	5,147	(0.7)	(6.0)	5,186	5,476	
Revenue, net	28,784	(1.7)	18.9	29,285	24,210	
EBITDA	4,447	16.9	8.4	3,804	4,104	
PAT	607	(69.8)	95.6	2,011	310	
EBITDA (INR/te)	873	19.3	(14.5)	732	1,021	
EBITDA Margin (%)	15.5	246bps	-150bps	13.0	17.0	
PAT Margin (%)	2.1	-476bps	83bps	6.9	1.3	
JK Cement (Standalone)						We estimate JK Cement's grey cement volumes to rise ~15% YoY (up ~14% QoQ) while realisations may fall ~4% QoQ. For white segment, estimate volumes to stay flat both on a YoY and QoQ basis while realisation too may stay flat QoQ. With marginal relief in fuel cost, estimate blended EBITDA/t to surge 30% YoY (though down ~22% QoQ to INR 1,038.
Total volumes (mt)	5.17	13.4	13.0	4.56	4.58	
Revenue	29,990	12.6	7.7	26,646	27,848	
EBITDA	5,369	47.7	(11.8)	3,636	6,084	
PAT	2,392	71.6	(17.4)	1,394	2,895	
Blended EBITDA (INR/te)	1,038	30.2	(21.9)	797	1,330	
EBITDA Margin (%)	17.9	426bps	-395bps	13.6	21.8	
PAT Margin (%)	8.0	274bps	-242bps	5.2	10.4	
Grasim - Standalone						For Grasim Industries, EBITDA margins are likely to slip ~60bps QoQ owing to continued weakness in global prices of VSF as well as Chemicals segment. The losses for new business-like Paints and b2b e-commerce segment are also expected to drag the overall margins.
VSF Volumes (mt)	0.213	5.0	(1.0)	0.203	0.215	
Chemicals Volume (mt)	0.308	7.7	3.0	0.286	0.299	
VSF Realisation (INR/te)	1,70,805	(7.9)	(1.0)	1,85,422	1,72,530	
Revenues	63,791	(4.0)	(0.3)	66,458	64,003	
EBITDA	4,808	12.9	(8.0)	4,260	5,225	
PAT Adj	1,462	56.3	(38.1)	935	2,363	
EBITDA margins (%)	7.5	113bps	-63bps	6.4	8.2	
PAT Margin (%)	2.3	88bps	-140bps	1.4	3.7	

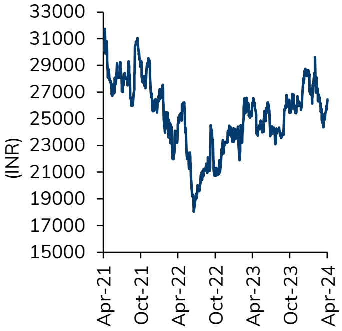
Source: I-Sec research, Company data

Price charts

UltraTech Cement



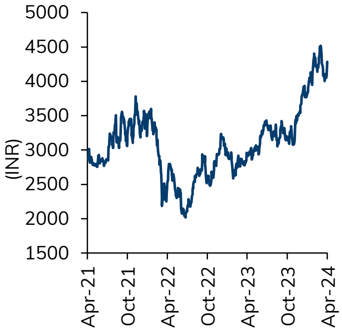
Shree Cement



Ambuja Cements

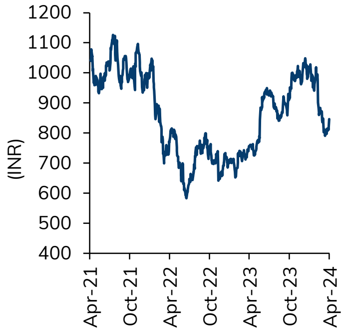
ACC

JK Cement

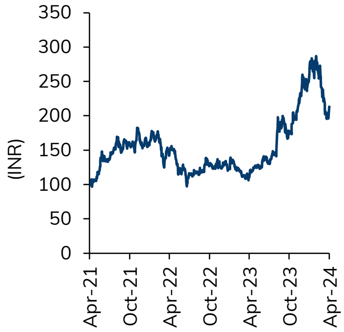


India Cements

Ramco Cements

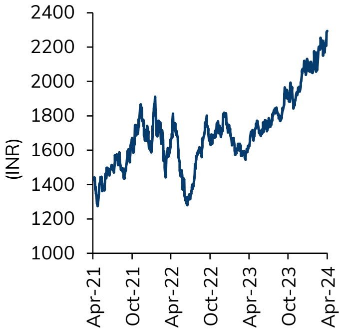


Orient Cement



Nuvoco Vistas

Grasim Industries



Source : Bloomberg

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