

07 June 2024

India | Equity Research | Sector Update

Cement

Competitive severity; maintain neutrality

With the incumbent NDA government set to stay in power (outcome of recently concluded general elections) for a third consecutive term, our **neutral** stance on the sector is extant. Synchronously, our demand estimate (6%/7% for FY25E/FY26E) is intact; in tandem we maintain that amidst the underlying elevated competitive intensity (we envisage pricing environment staying volatile), the chances of earning upgrades remain far and few. *Au contraire*, weakness deepening in cement prices (with the onset of monsoons) will likely bruise earnings. Further, benign fuel cost alone may not suffice to drive margin expansion. We continue to prefer Ambuja Cement (on expectation of industry-superior capacity growth and cost rationalisation potential) and ACC (on compelling valuations) as investment ideas.

Demand growth to sustain

We estimate cement demand to have grown ~9% in the pre-election year of FY24 on the back of ~11% growth in FY23. With the incumbent NDA government staying in power, we maintain our demand growth estimate at 6% for FY25E and 7% for FY26E. For the record, the average demand growth in the past 14 years (FY11-FY24) has been ~6%. Also, in the last post-election year of FY20, cement demand stood flat YoY on the back of robust >13% growth in FY19. Even if demand estimates were to deviate a bit, we see limited impact on earnings given cement EBITDA is much more sensitive to prices (every 1% change in realisation impacts EBITDA by ~4%) over demand (every 1% change in volumes impact EBITDA by ~1%).

Pricing environment to stay volatile

Cement prices have been on a downward spiral since Nov'23. Stiff competitive intensity led to a rare ~7% QoQ drop in pan-India prices in Q4FY24 despite record volumes (industry grew ~9-10% in Q4FY24, in our view). There has been no respite from the underlying competitive intensity since, with cement prices slipping further in May'24, after failed price hike attempts in Apr'24. Not too long before, in Oct'23, price hikes were attempted, but could hardly sustain and were eventually rolled back. With cumulative capacity addition of a mammoth ~120mtpa over FY25E and FY26E amidst industry-wide race for capacity share, we believe cement price volatility is here to stay.

Cost rationalisation in focus; see select investment opportunity

We observe several cement companies emphasising on rationalising costs further in their post-earnings commentary (after Q4FY24). Many of them guided cost saving potential of >INR 200–500/t over the next two–three years.

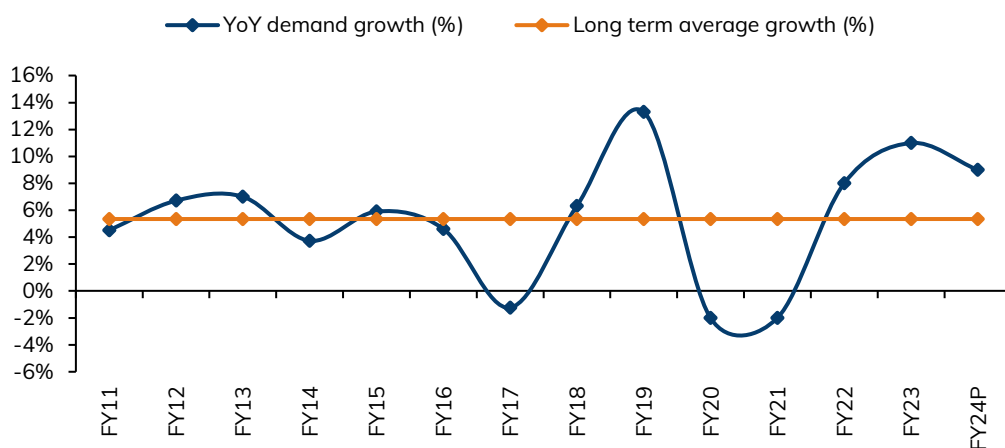
With the industry's focus on cost savings amidst the elevated competitive intensity (and our expectation of continued cement price volatility), earnings upgrades will likely be far and few. We maintain our **neutral** sector stance.

We continue to prefer – 1) **Ambuja Cement** – factoring in potential industry-superior volume growth and its cost saving target of INR 530/t by FY28. 2) **ACC** – given its compelling valuation of <10x FY26E EV/EBITDA, volume benefits from sister concern Sanghi Ind. and demonstrated/future cost savings potential.

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Exhibit 1: Cement demand grew a robust 9% in FY24 vs ~5.5% long term average


Source: I-Sec research, Industry Data

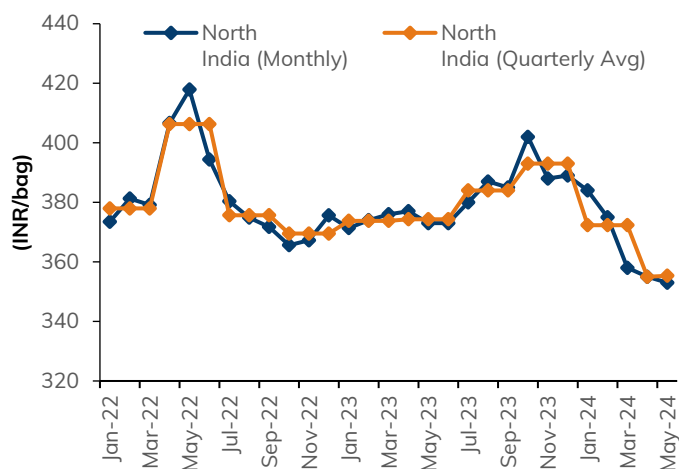
Exhibit 2: Quarterly trend of volumes reported by listed cement companies (being ~85% of the industry)

Grey Cement volumes (mt)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)
UltraTech Cement	31.2	29.6	26.3	26.8	34.6	11%
Shree Cement	8.8	8.9	8.2	8.9	9.5	8%
Ambuja Cement (Cons.) (net of MSA)	14.1	15.4	13.1	14.1	16.6	18%
Dalmia Bharat	7.4	7.0	6.2	6.8	8.8	19%
JK Cement	4.1	4.1	3.9	4.2	4.7	13%
JK Lakshmi	3.2	3.2	2.9	3.0	3.26	1%
The Ramco Cements	4.7	4.3	4.6	4.0	5.5	17%
Nuvoco Vistas	5.2	5.0	4.5	4.0	5.3	2%
Heidelberg Cement	1.2	1.2	1.16	1.2	1.2	4%
Prism Johnson	1.8	1.7	1.5	1.5	1.9	4%
Orient Cement	1.7	1.6	1.4	1.4	1.7	0%
India Cements	2.8	2.7	2.4	2.0	2.4	-13%
Birla Corporation	4.4	4.4	4.2	4.2	4.9	9%
Star Cement	1.2	1.2	0.9	1.0	1.4	15%
Sagar Cements	1.4	1.2	1.3	1.4	1.6	19%
Shree Digvijay Cement	0.3	0.3	0.3	0.3	0.4	18%
Total	93.7	91.8	82.7	84.7	103.8	
% Growth YoY	8.3%	15.2%	12.0%	5.3%	10.8%	

Source: I-Sec research, Company data

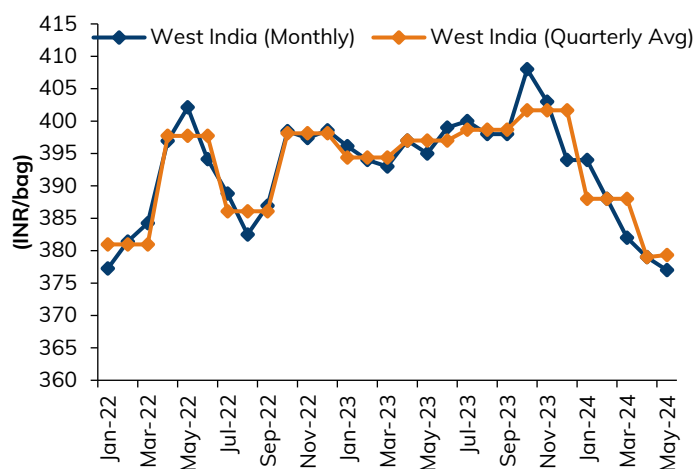
Cement prices continue to slide down further in May 2024 post a failed hike attempt in April 2024.

Exhibit 3: North India price trend



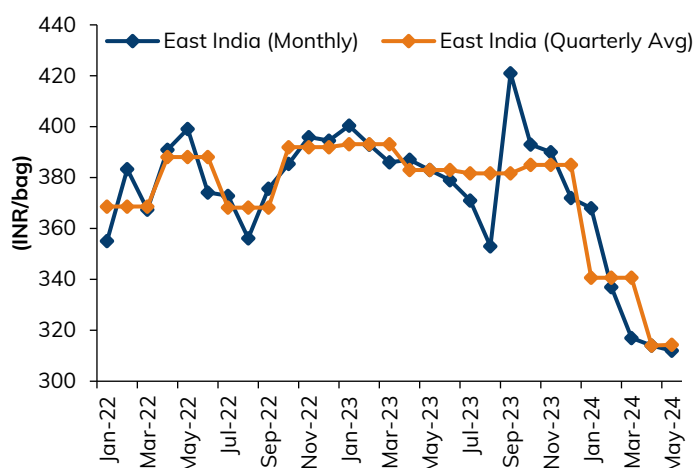
Source: Industry Data, I-Sec research

Exhibit 4: West India price trend



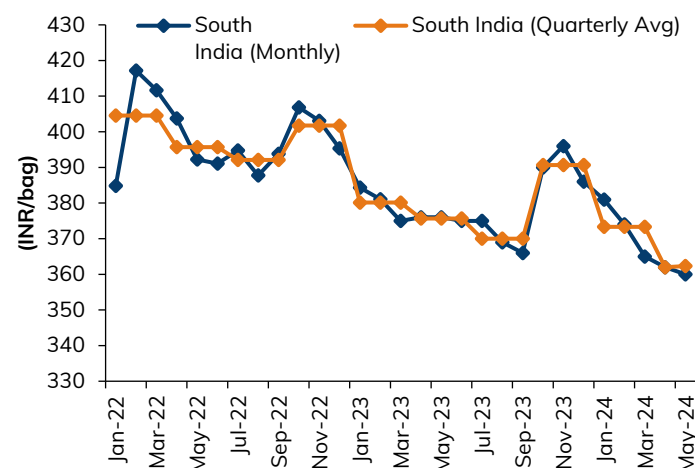
Source: Industry Data, I-Sec research

Exhibit 5: East India price trend



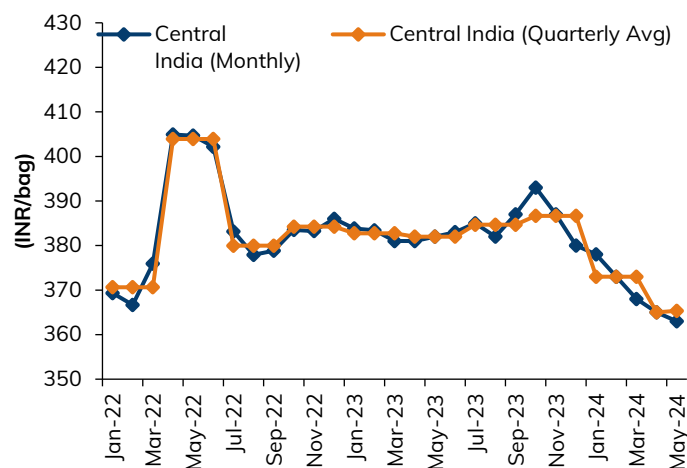
Source: Industry Data, I-Sec research

Exhibit 6: South India price trend



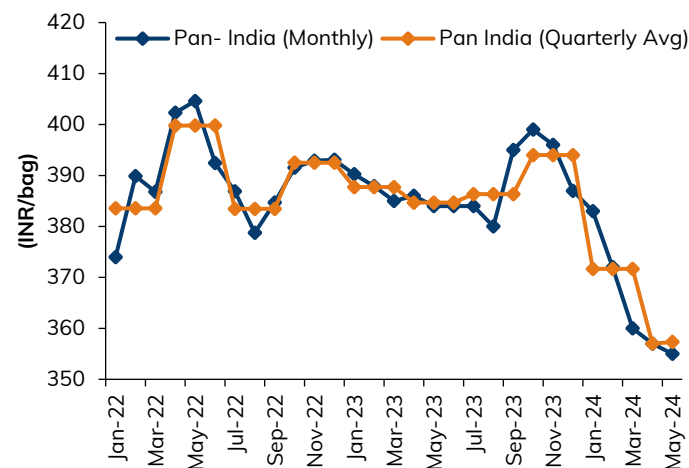
Source: Industry Data, I-Sec research

Exhibit 7: Central India price trend



Source: Industry Data, I-Sec research

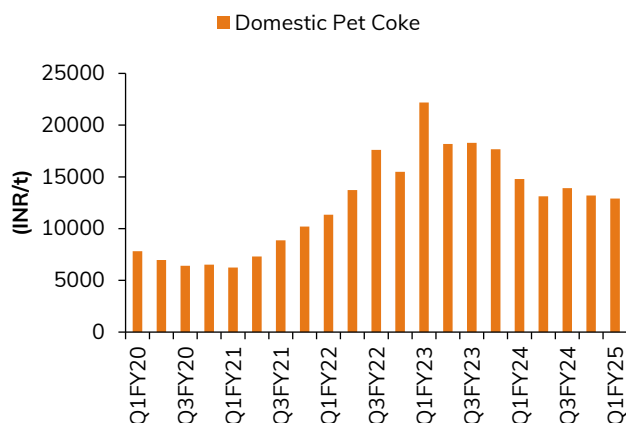
Exhibit 8: Cement prices trend weak – across regions



Source: Industry Data, I-Sec research

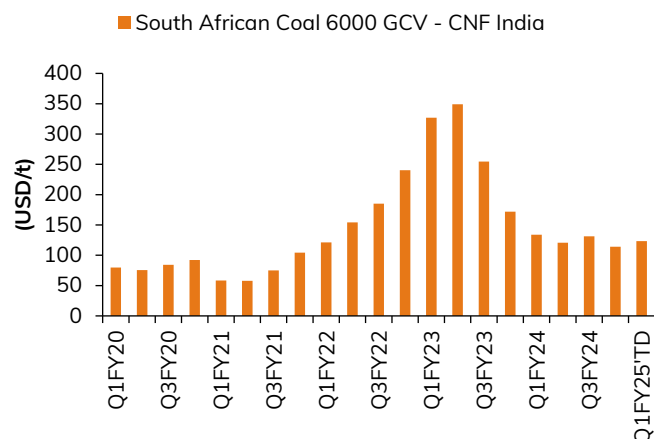
Fuel cost stays benign but unlikely to perk-up margins.

Exhibit 9: Domestic pet coke price trend



Source: I-Sec research

Exhibit 10: Imported coal price trend



Source: I-Sec research

Exhibit 11: Industry demand-supply matrix – huge capacity addition on the anvil

All India-(mtpa)	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E
Installed capacity - Cement	519	541	568	595	636	688	756
Annual additions (mtpa)	15	22	26	27	41	53	67
Installed capacity - Clinker	332	343	352	378	393	429	467
Annual additions (mtpa)	8	11	9	26	15	36	38
Cement consumption	330	322	348	386	417	442	473
Growth (%)	-2.4%	-2.5%	8.1%	11%	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%	67.7%	66.7%	65.5%
Clinker utilisation (%)	73.9%	69.7%	72.5%	75.2%	76.5%	75.9%	74.1%

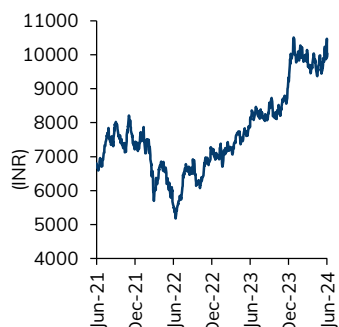
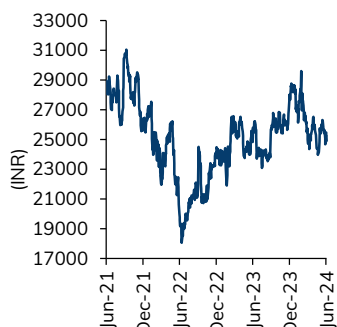
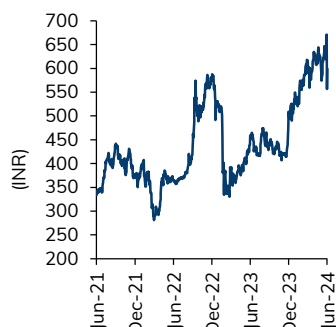
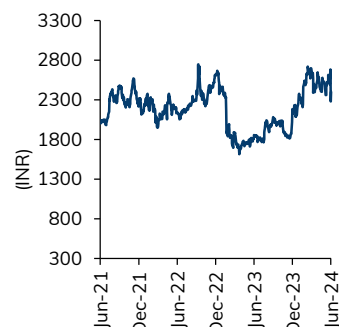
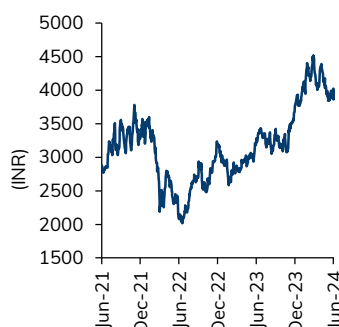
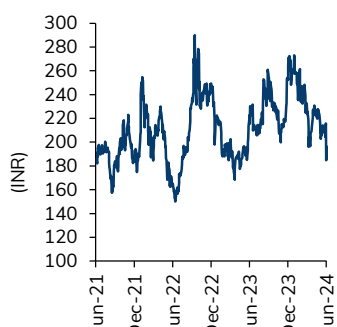
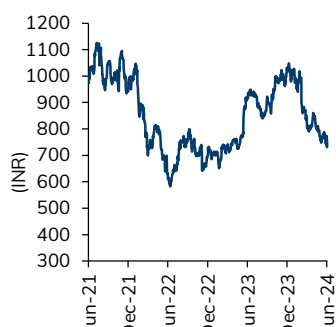
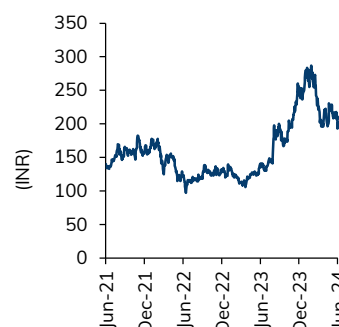
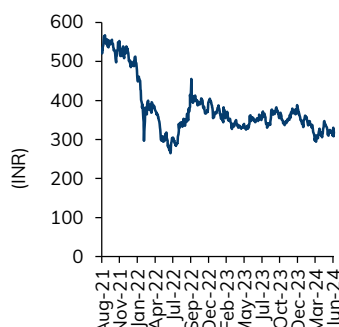
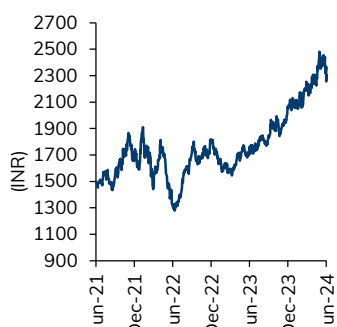
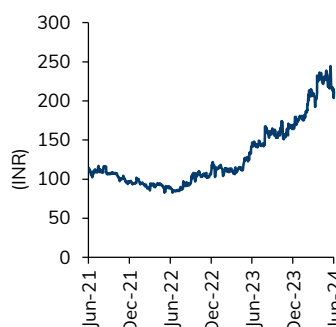
Source: I-Sec research, Company data

Exhibit 12: Valuation and recommendation table

Company	Rating	TP (INR)	EV/EBITDA (x)			EV/te (USD)			RoCE (pre-tax) (%)			RoE(%)		
			FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E
UltraTech Cement	HOLD	10,411	23	19	16	250	214	200	15.3	16.8	18.8	12.3	13.6	15.1
Shree Cement	HOLD	27,085	20	19	11	196	199	149	15.3	15.2	15.2	12.8	12.5	14.2
Ambuja Cements	BUY	831	21	20	14	208	224	188	10.4	10.1	12.2	11.8	10.2	10.7
ACC	BUY	3,272	15	12	10	143	131	124	17.4	18.2	20.2	14.1	13.1	14.7
JK Cement	BUY	4,620	17	16	14	162	156	129	16.3	16.0	16.7	16.1	15.0	15.1
India Cements	SELL	130	87	22	13	74	79	78	-0.6	2.6	5.9	-4.3	0.0	3.9
Ramco Cements	ADD	845	15	15	11	123	119	112	7.3	6.9	10.0	5.7	5.1	9.1
Orient Cement	HOLD	220	10	9	9	61	72	82	8.7	10.8	8.9	10.4	14.3	14.8
Nuvoco Vistas	HOLD	345	10	8	7	77	72	67	5.6	6.6	8.4	1.7	3.2	5.2
Grasim Industries	HOLD	2,501	13	9	9	-	-	-	4.3	6.0	5.7	3.2	4.2	4.1
Star Cement	BUY	271	16	9	8	137	136	103	16.5	24.0	23.5	11.5	18.5	18.0

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

Star Cement


Source: Bloomberg

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