



# Cement Sector Update

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Research Analyst

**CA Anupam Goswami**

Email: [anupam.goswami@smifs.co.in](mailto:anupam.goswami@smifs.co.in)

## Sector Overview

The turbulence in the Indian Cement sector continues to persist for longer than expected. As the industry is facing excess supply and low pricing power, recovery in cement realisations still eludes the industry even in Dec Quarter. While it was expected that cement prices may recover at the end of the festive season (Dussehra and Diwali), this however did not turn out to be the actual case as there was no material improvement in prices for the whole 9 months of FY19. Moreover, during Q3FY19 prices of both petcoke and diesel cost (accounting 40% of freight cost) have come down—a possible reason why there was reluctance to hike cement prices.

With more and more new capacities coming up, we believe the industry has gone into a Oligopoly market where the competition is becoming more stiff—in gaining higher market share. In order to channel out higher supplies and also to defend market share from hostile takeover, cement companies are compromising on the prices and hence taking a hit on the margins.

The Industry is going to put up 60-65MT additional capacities across country by FY21. Here's how the region wise capacity share would look like.

Cement Capacity(MT)		FY18					FY21E				
Name		South	East	Central	West	North	South	East	Central	West	North
Ultratech		20.5	13.7	27.7	27.7	23.9	20.5	13.7	27.7	27.7	23.9
ACC		10.4	8.7	4.3	4.0	6.0	10.4	9.8	9.1	4.0	6.0
Ambuja		-	5.9	1.4	10.4	12.0	-	5.9	1.4	10.4	13.8
Dalmia Bharat		12.1	9.3	-	3.0	-	15.1	18.2	-	3.0	-
Shree Cement			8.6	-	-	26.3	3.0	14.1	-	2.0	26.3
Birla Corp		-	7.3	3.8	0.6	4.0	-	7.3	5.0	4.5	4.0
Ramco		15.7	0.9	-	-	-	19.8	3.0	-	-	-
J.K lakshmi		-	3.3	-	2.3	7.6	-	3.3	-	2.3	7.6
J.K Cement		3.0	-	-	-	7.5	3.0	-	-	-	7.5
Rest		59.0	17.3	9.9	13.8	11.0	65.8	25.2	15.6	14.8	11.0
<b>Total</b>		<b>120.7</b>	<b>75.0</b>	<b>47.1</b>	<b>61.8</b>	<b>98.2</b>	<b>137.6</b>	<b>100.5</b>	<b>58.8</b>	<b>68.7</b>	<b>100.0</b>

Source: Company Data, SMIFS Research

Capacity Share (%)						FY18					FY21E				
Name	South	East	Central	West	North	South	East	Central	West	North					
Ultratech	17%	18%	42%	43%	24%	15%	14%	38%	40%	24%					
ACC	5%	12%	11%	6%	6%	8%	10%	8%	6%	6%					
Ambuja	-	8%	5%	17%	12%	-	6%	3%	15%	14%					
Dalmia Bharat	10%	12%	-	5%	-	11%	18%	-	4%	-					
Shree Cement	-	11%	-	-	27%	2%	14%	-	3%	26%					
Birla Corp	-	10%	8%	1%	4%	-	7%	9%	7%	4%					
Ramco	13%	1%	-	-	-	12%	3%	-	-	-					
J.K lakshmi	-	4%	-	4%	8%	-	3%	-	3%	8%					
J.K Cement	2%	-	-	-	8%	2%	-	-	-	7%					
Rest	53%	23%	34%	24%	11%	49%	25%	42%	22%	11%					

Source: Company Data, SMIFS Research

Particulars	FY17	FY18	FY21E
Installed Cement capacity	440	455	520
Intalled Clinker capacity	310	320	350
Cement production	280	297	392
Clinker production	212	220	280
Cement Utilisation (%)	64%	65%	75%
Clinker Utilisation (%)	68%	69%	80%
CC ratio	1.3	1.35	1.4

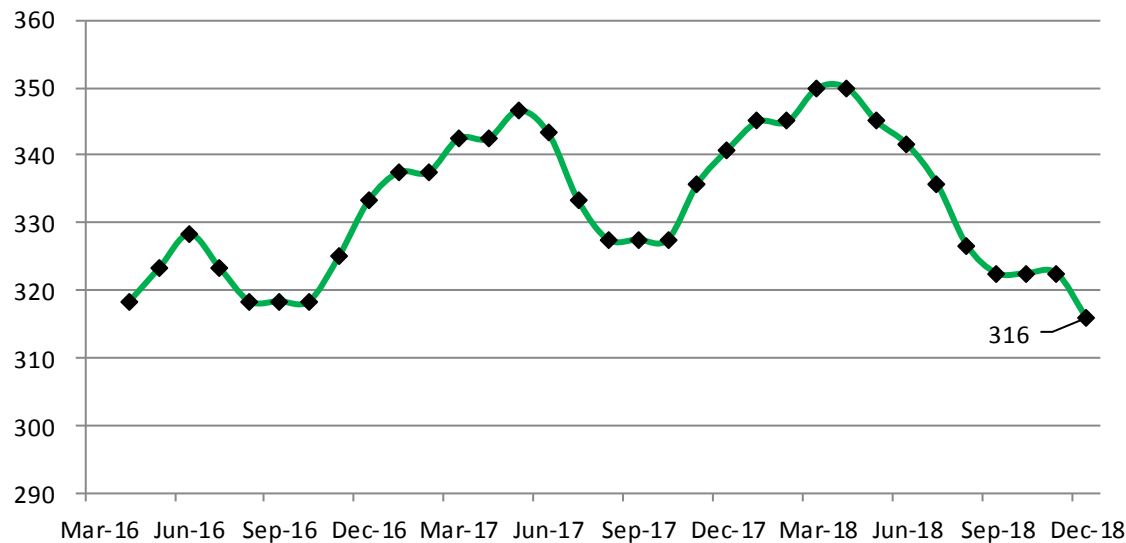
Source: CMA, IBEF, SMIFS Research

- We expect capacity addition of 60-65MT by FY21 by almost all the cement majors. By FY21 we expect total Cement capacity to reach 520MT.
- Among the regions, East would witness the highest addition, an increase in capacity to the extent 25MT; followed by South where capacity close to 17MT could be added.
- However most of the addition is coming in the grinding capacity. Clinker capacity addition is limited to the extent 20-25MT.
- As on FY18 current clinker capacity in India is around 320MT. By FY21 clinker capacity would increase to 345-350MT.
- Assuming Cement to clinker ratio of 1.4 and clinker utilisation of 80% we can say that max increase in cement supply would be in the range of 390-400MT. This would mean overall cement utilisation of 75%.

## Into the streets

We recently conducted our monthly channel checks on cement prices in the Eastern market. Here's what the picture looks like on the ground level market.

### Cement Prices in the East



*\*wholesale prices including GST*

Source: SMIFS Research

- In Q3FY19 the cement price fell by INR5-7 per bag or 2% over Sept'18 prices.
- Current Dec exit prices have come down to INR316 per per bag.
- Comparing YoY basis Q3FY19 cement prices were down by INR15 per bag or 4.4% over Q3FY18.
- The scenario is pretty same even during the 9 month period FY19, price in this period fell by INR34 per bag or around 10% over March'18 prices. Whereas last year in the same period the prices were slightly down by INR2 per bag.
- While volume demand in the trade segment has improved in East over the last year, competition on prices even among the dealers have increased.
- Current Freight cost typical for cement transportation is at INR14-16 per ton-km. This rate has increased over the last 3-4 months on the back of higher insurance cost and fuel cost.
- Along with infrastructure build up, dealers are witnessing a healthy growth from the individual house building (IHB) segment.

## Peer Comparison

Company	CMP	Mcap (INR Cr)	EPS			EV/EBITDA(x)			EV/ton(\$)			ROCE(%)			ROE(%)		
			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Star Cement	102	4285	8.0	7.1	7.9	9.3	9.1	8.0	262	223	196	19.7	22.5	23.7	22.8	17.3	16.6
Shree Cement	17077	59492	397.3	330.7	540.9	24.0	22.4	17.4	240	214	187	10.4	13.1	17.6	16.5	11.8	16.5
ACC*	1478	27763	35.0	49.2	49.9	15.8	15.1	11.3	125	116	112	14.0	14.2	18.4	9.9	9.7	12.8
Ambuja*	220	43803	6.3	6.3	8.1	13.7	13.4	10.6	134	136	134	11.3	12.4	16.4	8.6	8.4	10.8
Ultratech	3989	109574	89.6	106.5	160.5	20.2	17.2	12.6	221	208	196	10	11.5	15.4	9.5	10.3	13.5
Heidelberg	150	3420	5.9	9.0	10.6	11.8	8.8	7.6	122	121	113	14.8	21.1	24.2	12.8	17.5	18.1
India Cement	93	2887	3.3	3.8	7	8.6	8.1	7.2	64	63	62	5.1	5.4	6.2	1.9	2.2	4.0
JK Cement	718	5025	48.9	50.2	60.3	8.7	9.2	8.4	79	78	80	14.6	12.6	13.3	16.7	14.5	15.3
JK Lakshmi	283	3337	7.1	8.3	15.2	11.3	10.4	7.9	62	57	56	8.8	9.4	12.8	5.8	6.3	10.5
<b>Ramco Cement**</b>	<b>619</b>	<b>14597</b>	<b>26.52</b>	<b>33.4</b>	<b>38.5</b>	<b>14.1</b>	<b>13.6</b>	<b>11.1</b>	<b>131</b>	<b>121</b>	<b>98</b>	<b>15.2</b>	<b>14.2</b>	<b>16.0</b>	<b>13.7</b>	<b>13.9</b>	<b>15.6</b>

Source: Bloomberg, SMIFS Research

\* CY ending  
\*\* SMIFS Coverage

## Outlook

For now, government spending on infrastructure and allied projects is aiding growth in demand for cement. But that has not been sufficient to support prices as these comes under the low margin Non-trade segment where prices are INR40-50 per bag lower than retail trade prices. We believe the industry would continue to lack pricing power considering the dismal demand from the Real Estate sector which contributes 50-55% of the overall cement demand.

To somewhat sweeten the situation, petcoke prices has come down from peak levels of USD120-130 per ton to now USD95 per ton. According to S&P Global Platts, petcoke prices in India is expected to further come down to USD90 per ton levels. Since all the companies have around 2 month inventory we could see this benefit coming in Q4FY19 to Q1FY20. Moreover, diesel prices have also moderated which could further ease off some pressure in the margins.

To conclude, unless accompanied by adequate demand improvement from the Trade segment, realisations would continue to be weak and hence profitability likely to remain under pressure.

**We prefer ACC Ltd, Ambuja Cements Ltd, Heidelberg Cement India Ltd where return ratios are high and strong financials with to withstand any unfavorable situations in the variables.**

## Appendix -1

Month	Ultratech	Ambuja	ACC	Dalmia	Birla Corp.	Birla Gold	Average	M-oM Change
Apr-17	330	340	360	355	340	330	343	0%
May-17	335	345	360	360	345	335	347	1%
Jun-17	330	340	360	355	340	335	343	-1%
Jul-17	320	330	350	345	330	325	333	-3%
Aug-17	315	325	340	340	325	320	328	-2%
Sep-17	315	325	340	340	325	320	328	0%
Oct-17	315	325	340	340	325	320	328	0%
Nov-17	325	335	345	350	335	325	336	3%
Dec-17	325	345	345	360	345	325	341	1%
Jan-18	330	350	345	365	350	330	345	1%
Feb-18	330	350	345	365	350	330	345	0%
Mar-18	335	355	350	370	355	335	350	1%
Apr-18	335	355	350	370	355	335	350	0%
May-18	330	355	345	360	350	330	345	-1%
Jun-18	325	350	340	355	345	335	342	-1%
Jul-18	320	345	335	350	340	325	336	-2%
Aug-18	310	335	325	340	330	320	327	-3%
Sep-18	310	330	320	335	325	315	323	-1%
Oct-18	310	330	320	335	325	315	323	0%
Nov-18	310	330	320	335	325	315	323	0%
Dec-18	305	315	320	320	320	315	316	-2%

Source: SMIFS Research

\*wholesale prices including GST

## Research & Development Strategies

Mr. Ajay Jaiswal President: Strategies and Head Research ajaiswal@smifs.com +91 33 66345408 / 40115408 Mobile No: +91 983696690	Mr. Rahul Kayan Director rahul.kayan@smifs.com +91 33 66345419 / 40115419 Mobile No: +91 9831893232	Mr. Ashiwini Kumar Tripathi Designated Director aswin.tripathi@smifs.com +91 33 66345415 / 40115415 Mobile No: +91 9831155058		Mr. Shivaji Roy Sr. VP - Sales shivaji.roy@smifs.co.in +91 33 66345400 / 40115400 Mobile No: +91 9830173200
	Mr. Rajesh Basu Majumdar Head Equities - Institutional rajesh.majumdar@smifs.com +91 33 66345400 / 40115400 Mobile No: +91 9830267133	Mr. Monal Desai Sr. VP - Institutional Sales monal.desai@smifs.co.in +91 2242005555 Mobile No: +91 9821137303		

## Research Team

Mr. Saurabh Ginodia Associate VP - Research & Strategies saurabh.ginodia@smifs.com +91 33 66345407	Mr. Dipanjan Basuthakur Sr. Research Analyst dbasuthakur@smifs.com +91 33 66345486	Ms. Sutapa Biswas Sr. Research Analyst Economy sutapa.biswas@smifs.com Mobile No: +91 9836020612	Mr. Abhishek Roy Research Analyst FMCG/Retail/Consumer Durables abhishek.roy@smifs.com +91 33 40115468	Mr. Anupam Goswami Research Analyst Building Products/Capital Goods/Construction Equipment anupam.goswami@smifs.co.in +91 33 40115474	Mr. Pratim Roy Research Analyst Oil & Gas/Textiles pratim.roy@smifs.co.in +91 33 40115400
Mr. Debjit Maji Research Analyst Auto & Auto Ancillary/Telecom debjit.maji@smifs.co.in +91 33 40115474	Mr. Sarthak Mukherjee Research Analyst Aviation/Hospitality/Logistics sarthak.mukherjee@smifs.co.in +91 33 40115474	Mr. Anmol Das Research Analyst Metals and Mining anmol.das@smifs.co.in +91 33 40115474	Mr. Anik Mitra Research Analyst Pharmaceuticals anik.mitra@smifs.com +91 33 40115400	Mr. Sudip Dugar Research Analyst BFSI sudip.dugar@smifs.com +91 33 40115400	Mr. Shubham Kakrania Research Analyst IT/Media shubham.kakrania@smifs.com +91 33 40115400

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<div>Mr. Sam Nair</div> <div>AVP - Commodities</div> <div>sam.nair@smifs.com</div> <div>Mobile No: +91 81138 52263</div>	<div>Mr. Jaydeb Dey</div> <div>Technical Analyst Equities</div> <div>jaydeb.dey@smifs.com</div> <div>+91 33 66345433</div>	<div>Ms. Tania Das</div> <div>Sr. Associate Client Relation</div> <div>tania.das@smifs.co.in</div> <div>Mobile No: +91 9836162494</div>	<div>Mr. Deepankar Saha</div> <div>Research Assistant</div> <div>deepankar.saha@smifs.co.in</div> <div>Phone: +91 33 40115468</div> <div>Mobile No: +91 9831260464</div>	Strong Buy	>20%
				Buy	between 12% and 20%
				Accumulate	between 6% and 12%
				Hold	between 0% and 6%
				Sell	0 to <-10%
				Neutral	No Rating
				Stock Recommendation	

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## Contact Details

<b>REGISTERED OFFICE</b> Mr. Sandipan Chatterjee Vaibhav, 4 Lee Road, Kolkata 700020, India. Phone: +91 33 66345400 / 40115400	<b>MUMBAI</b> Mr. Sohail I Khan Office No. 5G, New Marine Lines, Court Chamber, Mumbai - 400 020, Maharashtra, India Mobile No: +91-9930294893	<b>NEW DELHI</b> Mr. Taj Mohammad 6th Floor, 654, Aggarwal Metro Heights, Netaji Subhash Place, Pitampura, New Delhi – 110034, India. Mobile No: +91 9818754786	<b>BHUBANESHWAR</b> Mr. Jaydeep Pattanayak Plot No - 32E, 1st Floor Ashok Nagar, Bhubaneswar, Pin - 751009, Odissa, India. Mobile No: +91 9583099025	<b>GOA</b> Mr. Sayed Hyder Nazir A-320, Varde Valaulikar Road 3rd Floor, Reliance Trade Centre, Beside Grace Church, Margo, Goa - 40361 Mobile No: +91 7020287721	<b>LUCKNOW</b> Mr. Ashish Verma 6 Park Road, UGF 4, Hazratganj, Lucknow - 226001, Uttar Pradesh, India. Mobile No: +91 9559378972
<b>PATNA</b> Mr. Ram Singh 606/A, Ashiana Plaza, Budha Marg, Patna – 800001, Bihar, India. Mobile No: +91 9570507409	<b>KANPUR</b> Mr. Amit Kumar Gupta Office No.212 - 213, 2nd Floor, KAN Chamber, Adjacent to UP Stock Exchange, 14/113, Civil Lines, Kanpur - 208001, Uttar Pradesh, India. Mobile No: +91 9151104767	<b>BANGALORE</b> Mr. S. Srikanth No.153, 2nd Floor, Sheela Arcade, 7th Block Koramangala, (Opp.—Sai Baba Mandir) Bangalore - 560095, India. Mobile No: +91 9845020017	<b>CHENNAI</b> Mr. K.K.Raja Gopalan New No.4/2, Bajaj Apartments, Seethamal Colony, 1st Cross Corner, Alwarpet, Chennai – 600018, India. Mobile No: +91 9383931590	<b>MUMBAI</b> Mr. Shiv Shankar Singh 110, Tirupati Udyog Industrial Premises, 1B Patel Road, Goregaon East, Mumbai – 400063 India. Mobile No: +91 8766808971	<b>PATHANKOT</b> Ms. Anuradha Marwaha SCO G - 69, Netaji Market, Opp. Hindu Co.op. Bank, Dalhousie Road, Pathankot - 145001, Punjab Mobile No: +91 9256312560
<b>MANALI</b> Mr. Sachin Jolly Village & Post Office - Bahang, Tehsil Manali, Rohtang Pass Road, District - Kullu, Pin - 175103, Himachal Pradesh, India Phone: +91 9816036136	<b>PORT BLAIR</b> Mr. Gulam Hassan 24, S.J.Lane, 8/3, Sahajeevan Housing, Co-operative, P.O. Haddo, Port Blair 744102, India. Phone: 233-175 Mobile , No. 9932081381/9933236406				

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Stewart & Mackertich Wealth Management Ltd.  
Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.  
Tel.: +91 33 6634 5408 /, Fax: 91 33 22893401

Website: [www.smifs.com](http://www.smifs.com)

For queries related to compliance of the report, please contact:

- Sudipto Datta, Compliance Officer

Contact No.: +91 33 66345414 / 4011 5414

Email Id.: [compliance@smifs.com](mailto:compliance@smifs.com) / [sudipta@smifs.com](mailto:sudipta@smifs.com)