



Cement Sector Update

June 2019

Research Analyst

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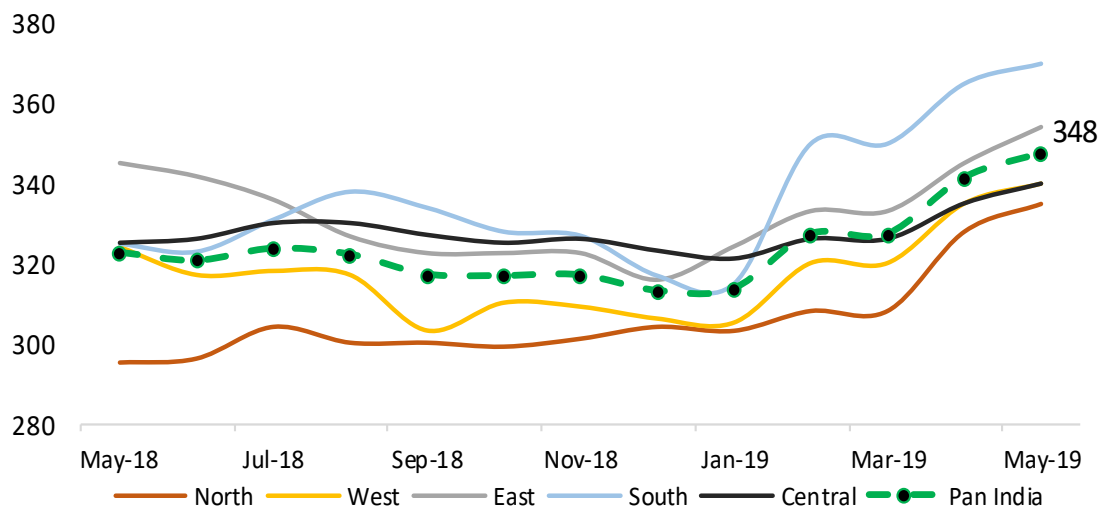
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Sector Overview

The cement sector witnessed a double digit volume growth last year but with tepid margins due to high input costs and unable to take price hikes in first 9 months of FY19. However, the tables seem to have turned in Q4FY19 after several rounds of price hikes taken across all the regions. Total cement production in FY19 in India have totaled to 337MT, a growth of 13.5% over FY18 led by high infrastructure spending and low cost housing. According to industry, overall cement demand is expected to grow at a CAGR of 7-8% for the next 2-3 years. Moreover, capacity utilisation improved significantly and reached close to 71%— the highest in the past seven years.

Our channel check suggests, cement makers have also taken series of price hikes across all the regions in the month of April and May 2019. The pan India average cement price as on May'19 end is around INR348 per bag, higher by INR20-25 per bag from Q4FY19. Also the input costs have remained stable during Q4FY19 which led to improved margins in the industry. However the recent commentary by Union Minister, Mr. Nitin Gadkari, on such steep price hike in cement poses a caution on the sector. In our opinion the cement prices would correct in the monsoon season and stern intervention from the Govt not likely to occur.

Cement Price trend per bag



Source: SMIFS Research

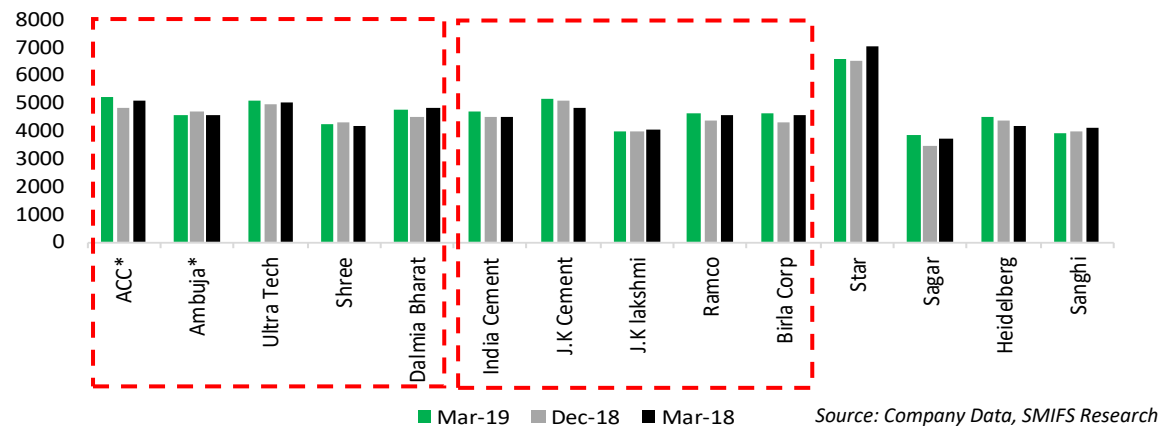
As per our Channel checks:

- In the last two months, the North region witnessed overall hike of around INR25-27 followed by East and West where prices have gone up by around INR20 per bag.
- The May'19 exit price in the North is around INR335, 8% higher than March'19 exit prices. The Northern region also witnessed a **high capacity utilisation of 85% in FY19.**
- In the same period average prices in the East and West have increased by INR20 per bag. The May'19 exit prices in East and West were INR354 and INR340 respectively.
- While in the South and Central region, prices have gone up by INR20 and INR15 per bag respectively in the last two months.

Q4FY19 performance comparison

For the full year FY19 and Q4FY19, cement industry has seen high YoY volume growth on the back of strong demand from Infra, low cost housing and rural housing. We segregate our cement makers according to capacity in Group A (Top 5), Group B (Next 5) and others.

Realisation Per ton

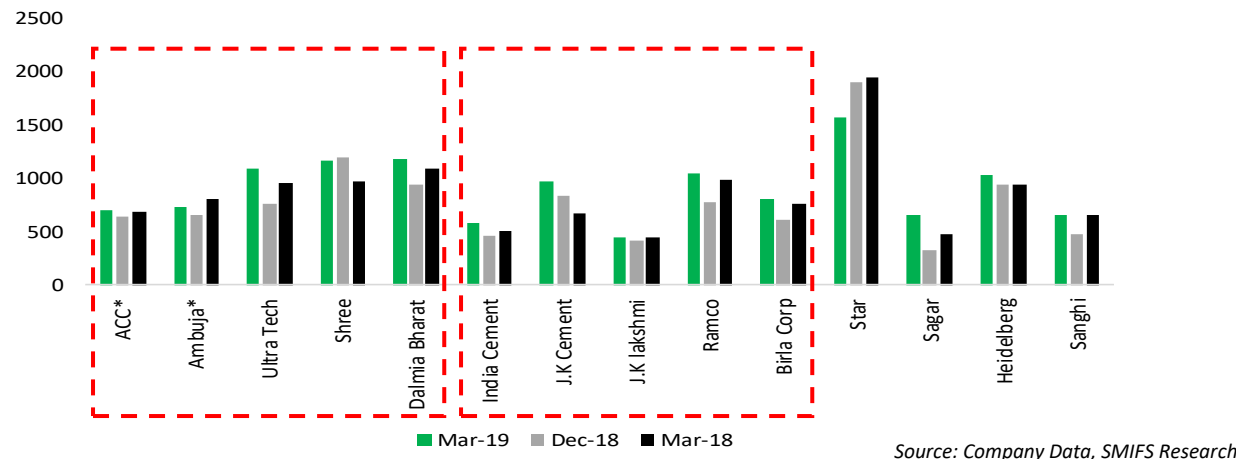


For Group A, in Q4FY19, the average realization per ton was flat YoY at INR4782 . **ACC** reported highest Realisation growth of 3% YoY in this group.

For Group B, the average realization improved by 2.7% YoY to INR4506 per ton. Among all, **J.K Cement** reported highest growth in realisation at 7% YoY to INR5182 per ton.

Star Cement and Sanghi Industries have however, reported a YoY decline in Realisation per ton.

EBITDA per ton

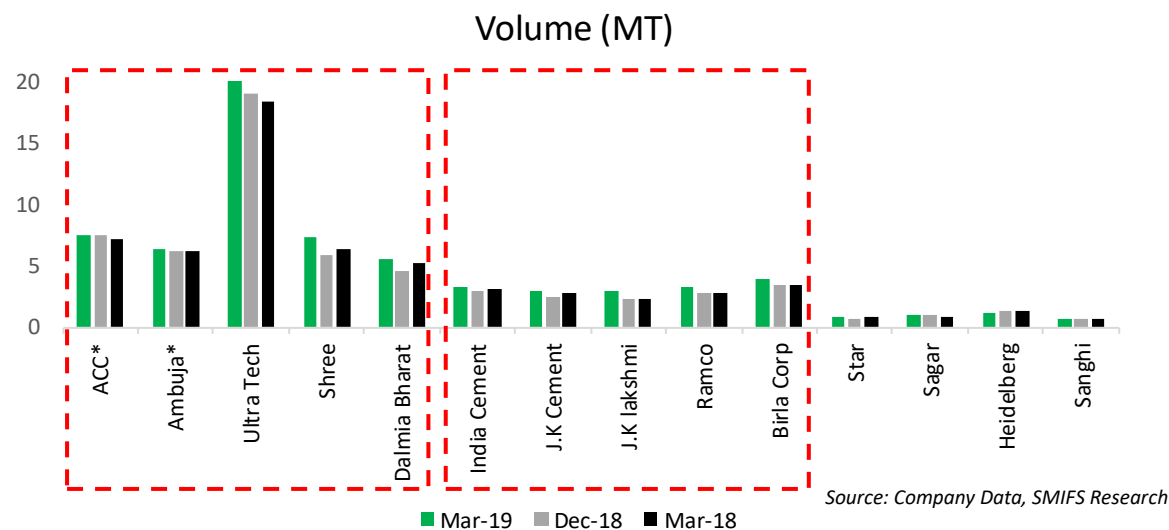


In Q4FY19 most cement companies improved profitability on the back of higher realisation and stable input cost.

In Group A, **Ultratech and Shree Cement**, EBITDA per ton improved by healthy rate of 11% and 14% YoY respectively. The average EBITDA per ton for this group were INR977 in Q4FY19 as against INR909 in Q4FY18.

In Group B, **J.K Cement** reported a massive growth of 45% YoY in Q4FY19. The average EBITDA per ton was INR770 in Q4FY19 as against INR678 in Q4FY18.

Q4FY19 performance comparison



For Q4FY19, all the companies had high volume growth. For Group A, the average volume growth in Q4FY19 was around 9%. However the growth was mostly contributed by **Ultratech** which grew 15% YoY due Binani addition.

For Group B, the growth scenario is much better. **J.K Lakshmi, Ramco and Birla Corp** posted high volume growth at 32%, 20% and 13% YoY respectively.

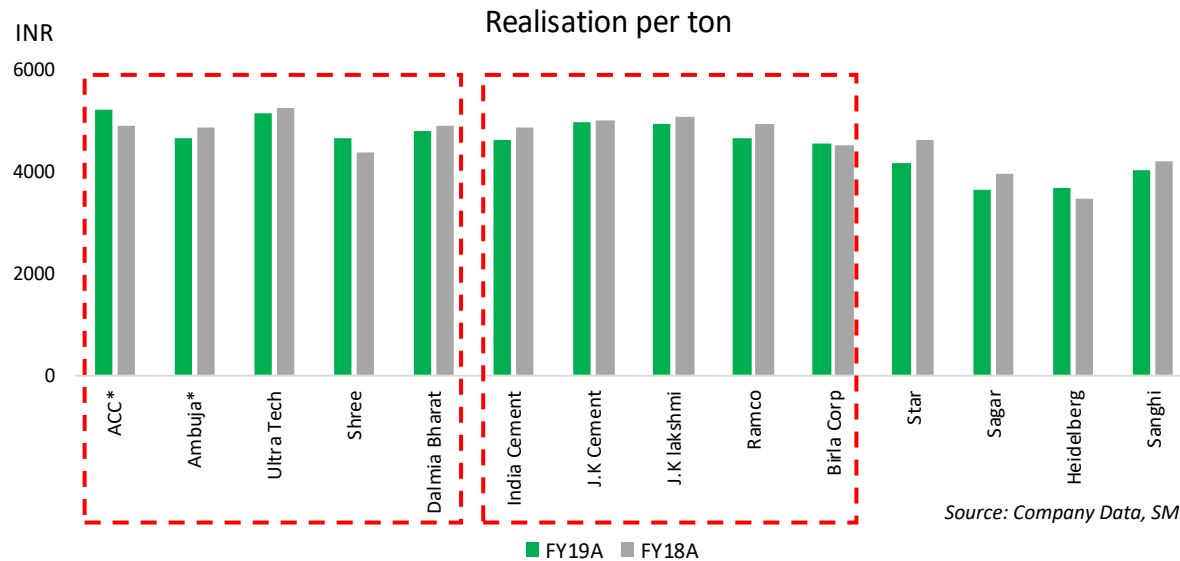
Summary of Q4FY19 operating performance

Entity	Volume (MT)	growth % (YoY)	Realisation per ton (INR)	growth % (YoY)	EBITDA per ton (INR)	growth % (YoY)
ACC*	7.5	5%	5225.5	3%	709	2%
Ambuja*	6.4	2%	4596.5	0%	727	-11%
Ultra Tech	21.3	15%	5119.7	2%	1095	14%
Shree Cement	7.3	13%	4224.7	2%	1161	19%
Dalmia Bharat	5.6	8%	4743.3	-2%	1190	9%
India Cement	3.3	8%	4696.7	4%	577	13%
J.K Cement	2.9	6%	5182.4	7%	971	45%
J.K lakshmi	2.9	32%	3986.4	-1%	446	-2%
Ramco	3.3	20%	4638.3	1%	1050	6%
Birla Corp	3.9	13%	4626.0	1%	804	6%

*For ACC and Ambuja, it is CY18 instead of FY19 as these companies follow calendar year ending.

Source: Company Data, SMIFS Research

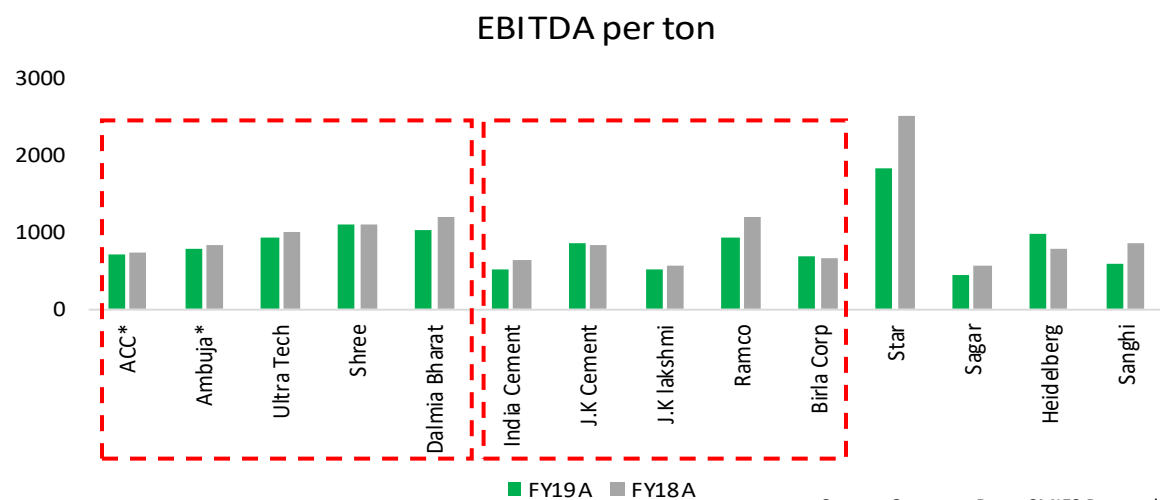
Full year FY19 performance comparison



Source: Company Data, SMIFS Research

For the full year FY19, among all the companies only **ACC and Shree** have achieved a higher realization over FY18. The average realization of Group A cement makers were INR4903 per ton, mere 0.6% higher than FY18.

For Group B, the average realization were INR4761 per ton in FY19 against INR4823 per ton in FY18. In Group B, Realisation for **J.K cement and Birla Corp** were flat YoY in FY19.



Source: Company Data, SMIFS Research

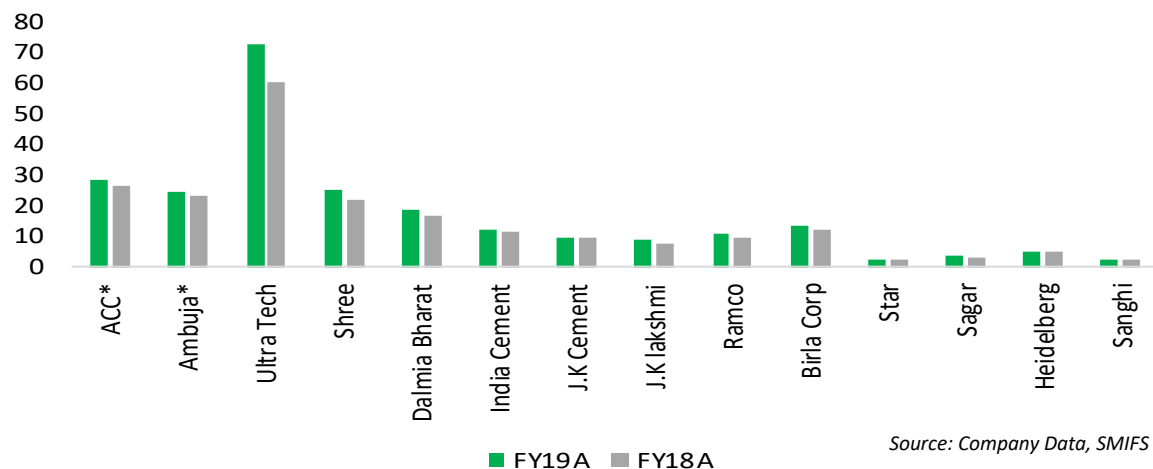
In FY19 most cement companies have reported a decline in EBITDA per ton basis due to steep input prices and tepid realisation duering the first 9 months of FY19. However, this trend was reversed in Q4FY19 after series of price hikes taken in the month of Feb-19 and March-19.

In Group A, only **Shree Cement and Dalmia Bharat** have posted EBITDA per ton above INR1000. The average EBITDA per ton in Group A were lower by 6% YoY to INR918.

In Group B, **Ramco cements** posted highest EBITDA per ton at INR939. The average EBITDA per ton in this group was lower by 10% to INR701.

Full year FY19 performance comparison

Volume (MT)



Source: Company Data, SMIFS Research

For the full year FY19, all the companies had high volume growth. For Group A, the volume growth in FY19 was 13.5%. However, this was aided by the 20% volume growth of Ultratech (due to Binani addition).

For Group B, the scenario is also similar with a volume growth of 12% in FY19.

Summary of FY19 operating performance

Entity	Volume (MT)	growth % (YoY)	Realisation per ton (INR)	growth % (YoY)	EBITDA per ton (INR)	growth % (YoY)	Capacity Utilisation (%)
ACC*	28.4	8%	5217.3	6%	721.9	-1%	85%
Ambuja*	24.3	6%	4681.3	-4%	779.7	-8%	82%
Ultra Tech	72.7	20%	5141.6	-2%	933.7	-8%	71%
Shree Cement	25.1	13%	4682.5	7%	1113.0	0%	66%
Dalmia Bharat	18.7	10%	4795.5	-3%	1039.6	-13%	75%
India Cement	12.4	11%	4638.6	-5%	503.0	-21%	80%
J.K Cement	9.9	5%	4993.4	0%	847.1	1%	87%
J.K lakshmi	8.7	15%	4949.5	-3%	520.2	-9%	67%
Ramco	11.1	19%	4664.6	-6%	939.3	-21%	62%
Birla Corp	13.6	10%	4560.5	0%	696.0	7%	87%

*For ACC and Ambuja, it is CY18 instead of FY19 as these companies follow calendar year ending.

Source: Company Data, SMIFS Research

Q4FY19 Key Concall Highlights

Ultratech Cement Ltd

- 1 Institutional demand is rising but retail will be the key driver.
- 2 **Incremental demand of 28 – 30 mmt is expected in FY20 whereas supply addition is expected to be around 20MT.**
- 3 Favourable cost condition in Q4FY19 & expect this trend to continue till H1FY20.
- 4 The management doesn't expect further rise in coal and petcoke prices.
- 5 The management expects a strong positive Cement pricing scenario in FY20.
- 6 Capacity utilization of 72% & is looking to exit all the non-core assets & expects to complete that by FY20.
- 7 Cost reduction of INR50/ton is expected to be achieved in FY20.
- 8 Capex of INR1500 – 2000 Cr is expected in FY20 which involve commissioning of Bara grinding units, WHRS plant, bulk terminals & wall care putty plants.
- 9 The company now wants to grow only through organic route any further, the focus now would be to deleverage.

Shree Cement Ltd

- 1 7-8% is the industry growth rate & the company would continue to grow at 11-12% in future.
- 2 Demand is expected to remain stable due to the infrastructure push by the Govt. Affordable housing will also help the demand to remain strong in Eastern market.
- 3 Pet coke prices have stabilized around \$95-100/ton. The total capex in FY19 was around INR4000 Cr
- 4 Clinker utilization in North is 78% & in East is around 100%. Total clinker capacity is 25.6 MTPA.
- 5 In South, this was the first quarter of operation. Current capacity utilisation is 32% & in future 4-5 quarters the capacity utilization would increase to 60%.
- 6 Setting up 3rd clinker facility in Chhattisgarh could come in the near future.
- 7 The company will focus more on the Trade sales going forward. Out of the total sales in FY19, 73% is for trade.
- 8 Launched 2 new brands & pricing of these brands are better than existing brands.

Dalmia Bharat Ltd

- 1 The Management expects 8-10% demand growth in FY20, driven by strong GDP growth and infra spending.
- 2 Industry cement demand grew 13% in FY19 while Dalmia's growth was lower at 10% due to constraints in clinker availability in the east
- 3 8 MTP project has started & plan is to use 50% of the plant capacity by the end of FY2020, which will help market share in East.
- 4 Slag prices have coming down which will help in reducing the raw material prices & improve EBITDA.
- 5 In Q1FY20, the demand had slowed down in April and May due to the elections
- 6 Capacity utilisation for FY19 has increased to 72% from 68% last year; Utilisation levels in east and north-east regions are higher than average
- 7 Pricing increased 4% in Q4FY19 on the back of strong demand and was led by south region; April and May saw further increase in prices across other regions
- 8 Land is being acquired in Rajasthan & MP, since these are green field projects so it will take 3 -4 years.
- 9 Capex of INR600 Cr done in FY19. In FY20 the capex of INR1700-2000 Cr would be done & this amount would be excluding Murlu Industries, East expansion and maintenance
- 10 Interest rates have come down but the cost of borrowing has not gone down. Repayment of INR1100 Cr is expected in FY20.

Q4FY19 Key Concall Highlights

J.K Cement Ltd

- 1 Management has guided for 10-12% volume growth in white cement and putty.
- 2 Volume guidance for grey cement is 9 million Ton plus and 1 Million for white in FY20.
- 3 In UAE operations, sales fig. for CY18 is 250,000 Ton for cement and 100,000 Ton for clinker.
- 4 Pet coke price has come down to USD 98/Ton in Jan 2019. pet coke.
- 5 Company imports around 80% of total requirement. Reliance is going to cut supply of pet coke post which company has to import.
- 6 Company is making efforts to save Rs. 60-70/Ton in logistics cost, currently it is saving Rs.40-45/Ton. Further, re-positioning, better modalities and increasing trade volumes to save another Rs. 50-75/Ton. Overall company is working on to save 125-150/Ton. Presently company has achieved 50% of that and balance to be achieved in next 6-8 months.
- 7 Debt as on 31 Dec 2018 is Rs.2124 Cr. Term loan of Rs. 1300 Cr is sanctioned and likely to receive in second half of Feb 2019.
Debt re-payment for FY19 is Rs. 180 Cr. Rate of interest for Rs. 1300 Cr is below 9%
- 8 Expansion of 4.2MT is on full swing and main equipment's have started receiving at site.

J.K Lakshmi Cement Ltd

- 1 As per the management, FY20 demand – supply scenario should be better than FY19 and hence the pricing should remain strong.
- 2 In Q4FY19 since the company had to purchase clinker from outside market at rate of INR2500-3000 per ton, due to which the COGS in Q4FY19 was higher.
- 3 Current average petcoke prices are at around INR8073 per ton. Current fuel mix is 75% pet coke and 25% coal.
- 4 The company has repaid INR200cr debt in FY19 and for FY20 the company has plans to repay another INR280 cr.
- 5 Blended cement mix for FY19 were at 65%. The management aims to revise the mix to 70% in FY20

Sagar Cement Ltd

- 1 In South, Demand continue to remain strong especially in Andhra Pradesh and Telangana, Kerala has also started showing signs of pick-up in demand.
- 2 Going forward demand and pricing is expected to improve on the back of pick-up in private and public capex activity.
- 3 In west, sluggish housing demand in Maharashtra impacted overall demand in the region.
- 4 Demand in AP and Telangana has seen a jump, where as in other parts demand has reached where it was a decade back.
- 5 Demand in east has been growing around 10% from a long period of time. Mgt expects demand to remain same for upcoming years.
- 6 Cement demand in South is expected to grow by 7-8% for next 5 years.
- 7 Average fuel price of Rs. 920/Ton in Q3FY19 as against INR917/Ton in Q3 FY18.
- 8 In last two years, infrastructure and the government spending in South was significantly driving the demand so housing contribution has come down to 60% to 52%.
- 9 The company has plans to invest a sum of INR150 Cr in Satguru Cement private Ltd. to set up a green field cement plant of a million Ton capacity along with WHR in Madhya Pradesh. Total cost of Rs. 426 Cr. and investment of Rs. 108 Cr in Jajpur Cement private Ltd. (Orissa) to acquire and also to set up a Greenfield 1.5MT grinding capacity at a total cost of Rs. 308 Cr. The incremental debt for both the entities will amount to INR475 Cr. Funding for both are secured at a cost of 10.2% p.a. for a 12 year time frame.

Source: Company Data, SMIFS Research

Capacity Addition region-wise break up

Clinker capacity Addition by FY21 Region-wise break up (In MT)						
S.I	Name	South	East	Central	West	North
1	Ultratech Cement			2.3		2.3*
2	ACC			3		
3	Ambuja					3.1
4	Dalmia Bharat		3.14			
5	Ramco	3.8				
6	Birla Corp				3.9	
7	J.K Cement					2.3
8	Sagar Cement					
9	Sanghi				3.3	
10	Chettinand Cement	2.1				
11	JSW cement					
12	Penna Cement	2.6				
13	Chettinad	2.3				
14	Wonder Cement					2.6
15	Others	2.01				
	Total	12.8	3.1	5.3	7.2	8.0

*Ultratech Pali project is put on hold currently

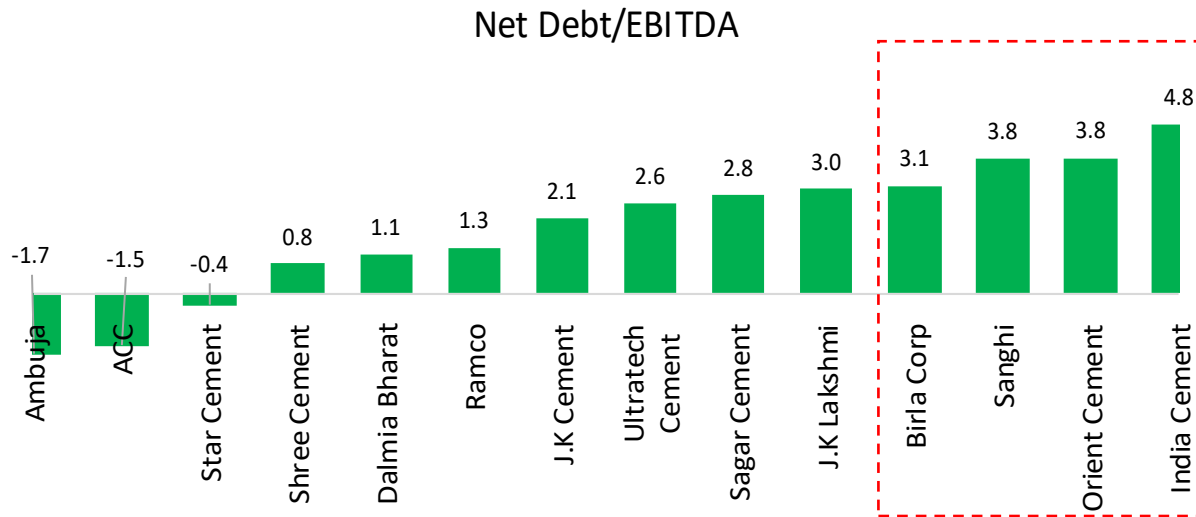
Cement capacity Addition by FY21 Region-wise break up (In MT)						
S.I	Name	South	East	Central	West	North
1	Ultratech Cement			4.0		
2	ACC		1.1			
3	Ambuja					1.8
4	Dalmia Bharat		8.1			
5	Shree Cement	3	5.5		2	
6	Ramco	2.1	3			
7	Birla Corp			1.2	3.9	
8	India Cement			1.5		
9	J.K Lakshmi					
10	J.K Cement			1.5	0.7	2.0
11	Sagar Cement	1.5			1	
12	Sanghi				4	
13	Chettinand Cement	2				
14	JSW cement		1.2			
15	Penna Cement	2.1				
16	Wonder Cement					2.6
17	Emami Cement		2.5			
18	Others	3.2				
	Total	13.9	21.4	8.2	11.6	6.4

Source: Company Data, SMIFS Research

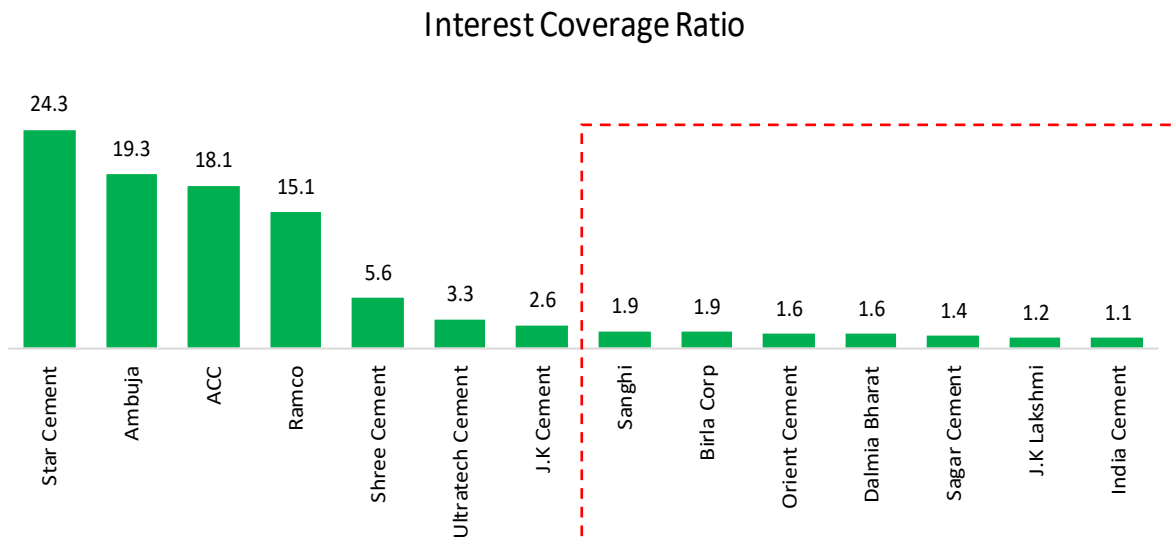
The above table does not include - 1) Star Cement setting up Grinding Unit of 2MT in Siliguri (North East); The company is planning to set up 2MT clinkerisation unit in Meghalaya (North East) and has applied for environmental clearance.

2) Ultratech planning to set up Integrated Unit of 6MT Cement and 4MT Clinker in Kurnool district of Andhra Pradesh (South) for INR2500cr. The company recently got environmental clearance.

Balance Sheet strength comparison



- We have analysed the Balance Sheet of cement companies to understand their ability to incur capex to fund their expansion plans.
- We found that companies with higher than 3.0x Net Debt/EBITDA and Interest coverage ratio of less 2.0x could face some constraints to smoothly fund these large expansion projects.
- Some of the capacity expansion in the pipeline are: Birla Corp (expanding 1.2MT and 3.9MT in Central and West region); Orient Cement with a aggressive expansion plan to add 4MT of cement capacity in South; Sanghi Industries Ltd (4MT cement capacity in West); and India Cement with a capacity addition plan of 1.5MT in the Central region.
- We believe these above expansion projects could face high probability of slippage and eventually get delayed. Hence, a capacity addition to the tune of 12-16MT may not be added by FY21-22E, further improving the capacity utilisation at higher levels.



Source: Company Data, SMIFS Research

Recent Limestone reserves auctioned and preferred bidder

Limestone Capacities auctioned in the last 4 years

States	Name of the Block	Reserves (MT)	Date of Bid	Preferred Entity
Andhra Pradesh	Gudipadu	26.7	14.04.2016	Penna Cements
Andhra Pradesh	Hussainapuram	9.0	17.07.2017	Shree Jayajyoti Cements Pvt Ltd
Andhra Pradesh	Venkatapuram	1.7	17.07.2017	Shree Jayajyoti Cements Pvt Ltd
Chattisgarh	Kesla	67.0	8.12.2015	Century Cements
Chattisgarh	Karhi	155.0	8.12.2015	Shree Cements
Chattisgarh	Kesla- II	215.0	21.02.2017	Dalmia Bharat
Chattisgarh	Guma block	124.0	2.01.2018	Ultratech
Odisha	Kottameta	98.7	26.10.2016	Dalmia Bharat
Rajasthan	Sindwari	174.5	11.11.2016	Dalmia Bharat
Rajasthan	3B1-(a) n/v Deh	127.0	11.11.2016	Emami
Rajasthan	3B1-(b) n/v Deh	168.8	2.07.2016	Emami
Rajasthan	3D1, n/v Harima	199.2	24.07.2017	Ambuja Cement
Rajasthan	3B2, n/v Sarasani	205.5	15.12.2017	JSW
Rajasthan	Tehsil Shri Mohangarh	209.3	25.05.2018	Shree Cements
Madhya Pradesh	Deora- Sitapuri	62.0	30.01.2018	Ultratech
Madhya Pradesh	Hinauti- 1, Satna	2.8	30.01.2018	Digiyana Industries Pvt Ltd
Madhya Pradesh	Hinauti- 2, Satna	1.7	30.01.2018	Digiyana Industries Pvt Ltd
Gujarat	Mudhvay Subblock B	301.5	28.03.2017	Shree Cements
Gujarat	Mudhvay Subblock D	125.0	28.03.2017	JSW
Maharashtra	Chandrapur	42.1	5.04.2017	Ambuja Cement
	Total	2316		

Source: Ministry of Mines

*does not include reserves acquired by India Cements in MP by buying out an entity- Springway Mining Pvt Ltd with est 100MT reserves.

- Limestone reserves to the extent of 2.3bn tonnes are auctioned in the last 4 years.
- We understand that the mining lease granted should come into production by 4-5 years i.e mines allocated in 2016 should come up by 2020-21.
- A total of 2.3bn tonnes could eventually lead to around 100MT clinker, assuming life of 30 years and 1.3 limestone to clinker ratio. Hence, availability of limestone is more than enough to support the clinker expansions of 30-35MT in the next 3 years..
- However, we observed that only the big cement players have recently auctioned for limestone reserves.
- **Hence, mid size and small cement players going for clinker expansions like Birla Corp, Ramco and J.K Cements could face limestone constraints going forward.**

Capacity Addition analysis

Particulars	FY17	FY18	FY19	FY21E
Installed Cement capacity	440	465	478	530
Intalled Clinker capacity	310	320	328	358
Cement production	280	297	337	401
Clinker production	212	220	244	286
Cement Utilisation (%)	64%	64%	71%	76%
Clinker Utilisation (%)	68%	69%	74%	80%
CC ratio	1.32	1.35	1.38	1.40

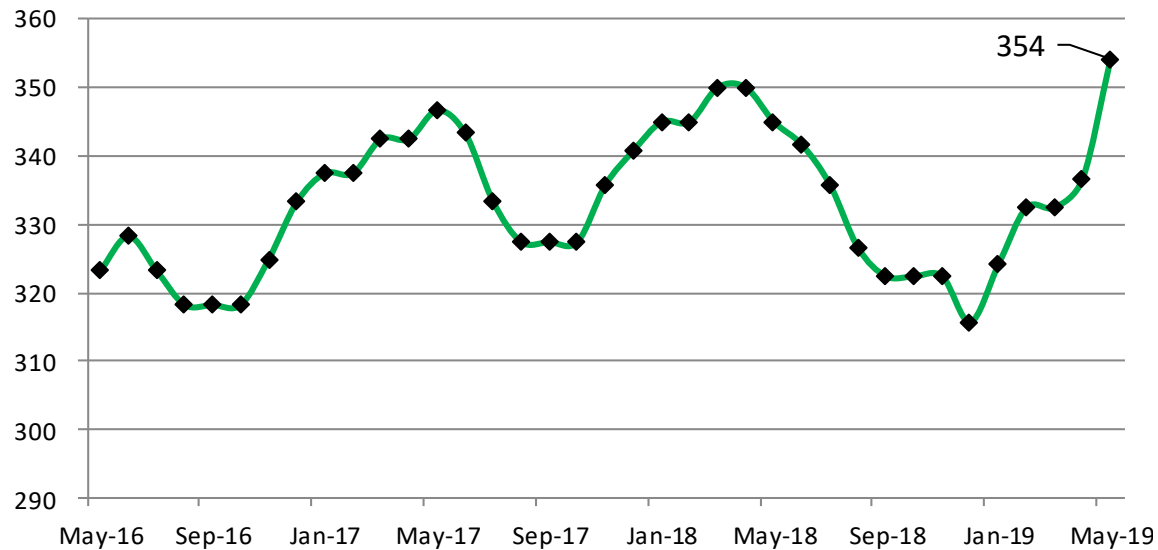
Source: Company Data, SMIFS Research

- Almost all the cement companies have announced capacity expansion to the tune of 60-65MT in the next 2-3 years. However, analyzing the financials of some of the mid cap companies, we expect there could be some slippage in capacity addition. We expect there could be atleast 48-52MT addition in cement capacity by FY21.
- Among the regions, East would witness the highest addition, an increase in capacity to the extent 20-23MT; followed by South where capacity close to 14-16MT could be added.
- However most of the addition is coming in the grinding capacity. **Clinker capacity addition is limited to the extent of 33-35MT**. Hence, clinker utilisation to remain significantly higher than cement utilisation levels.
- As on FY19 current clinker capacity in India is around 328MT. By FY21 clinker capacity is expected to increase to 350-355MT.
- Assuming Cement to clinker ratio of 1.4 and clinker utilisation of 80% we can expect that max increase in cement supply would be in the range of 400-410MT. This would mean overall cement utilisation would be around 76%. A 500bps increase over the current capacity utilisation of 71%.
- Also, we can conclude that the incremental demand (64MT) would be higher than incremental supply (52MT).

Into the streets

We recently conducted our monthly channel checks on cement prices in the Eastern market.

Cement Prices in East



Source: SMIFS Research

*wholesale prices including GST

- In months of April-19 and May-19 the cement price increased by INR18-20 per bag or 6% over March-19 prices.
- Current May-19 exit prices have gone up to INR354 per per bag.
- Comparing YoY basis in the months of April-19 and May-19, cement prices were up by INR10 per bag or 2.6%.
- The current May-19 exit price of INR354 per bag is higher than the whole year average prices in FY19 were INR331 per bag.
- There has been no news of roll back as of yet by the cement companies the Eastern region. However, as per our conversation with the dealers, they expect some roll back in prices as they are facing high inventory levels and lower offtake.
- Moreover, in Orissa there has been major disruption to the recent cyclone and demand has plunged in the coastal region.
- Current Freight cost typical for cement transportation remains unchanged i.e. at INR14-16 per ton-km.
- The overall demand scenario were slightly dull in the month of May due to elections and cyclone.

Peer Comparison

Company	CMP	Mcap (INR Cr)	EPS			EV/EBITDA(x)			EV/ton(\$)			ROCE(%)			ROE(%)		
			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Ultra tech cement	4502	123670	88.7	125.8	167.1	21.2	16.1	13.6	197.0	182.5	155.1	9.7%	12.6%	13.4%	8.9%	11.1%	12.6%
ACC*	1548	29084	80.9	68.2	75.7	12.7	11.7	10.7	109.9	124.4	112.4	14.7%	13.6%	14.9%	15.3%	12.1%	12.8%
Ambuja*	214	42562	7.5	7.3	8.5	20.7	19.0	17.0	185.6	186.6	109.2	11.3%	11.4%	11.6%	7.3%	7.4%	7.8%
Dalmia Bharat	1166	22503	15.8	28.1	39.3	12.8	11.1	9.7	140.4	152.5	96.3	4.3%	5.7%	6.2%	4.5%	5.5%	6.2%
Shree Cement	20493	71391	288.6	508.2	665.0	26.2	20.4	17.2	272.4	248.1	187.8	12.1%	17.6%	19.1%	14.8%	16.4%	18.5%
Ramco#	782	18440	21.7	30.1	35.7	18.9	14.6	12.4	167.4	166.2	143.6	12.0%	14.1%	14.7%	13.8%	14.1%	14.7%
Birla Corp	629	4850	33.2	39.8	47.6	8.2	7.1	6.3	69.8	69.4	43.0	6.0%	7.9%	8.1%	5.8%	7.0%	8.0%
India Cement	96	2984	0.6	6.4	9.0	9.7	10.3	8.6	54.7	73.1	63.6	5.0%	5.8%	6.0%	3.6%	4.0%	5.2%
J.K Lakshmi	358	4217	4.4	15.0	21.7	12.2	9.3	8.1	71.4	61.2	47.8	8.7%	10.6%	11.8%	2.5%	10.9%	13.7%
J.K Cement	1007	7786	34.12	51.8	57.3	11.5	9.8	8.4	128.6	119.9	73.6	12.1%	13.2%	14.5%	11.3%	13.0%	13.0%
Heidelberg Cement	199	4510	9.74	12.28	14.12	9.44	8.6	8.0	119.0	112.2	115.2	22.2%	24.9%	25.2%	19.9%	21.7%	21.3%
Star Cement	121	5068	7.13	8.74	10.4	16.42	9.6	8.3	241.5	179.9	113.7	18.6%	18.9%	19.1%	27.1%	18.2%	18.4%
Orient Cement	109	2239	2.32	3.51	4.20	11.01	8.5	7.2	60.5	48.5	28.8	5.9%	7.2%	7.5%	4.6%	6.2%	7.1%
Sagar Cement	640	1310	6.66	22.65	30.6	11.52	8.1	6.4	51.0	43.1	26.1	8.0%	9.7%	10.2%	1.7%	5.4%	7.7%
Sanghi	63	1568	2.1	3.25	3.68	13.93	10.2	7.1	73.7	74.5	74.5	4.6%	5.2%	5.4%	3.2%	4.8%	5.1%

* CY ending

SMIFS Coverage

Source: Bloomberg, SMIFS Research

Note: ACC FY19 EPS- excluding tax adjustment is INR54.31

Cement sector outlook

After a subdued margin in the first 9 months, the cement industry is set for a strong growth. It is expected that an incremental demand will be higher than an incremental supply over next three years and the companies are unlikely to cut prices any further and would rather be able to sustain the recent prices that took place in the last few months. We expect the incremental cement demand to grow at a rate of 8.5% p.a. over the next two years which could improve the utilisation rate to around 76%. However the recent commentary by Union Minister, Mr. Nitin Gadkari, on such steep price hike in cement poses a caution on the sector. In our opinion the cement prices would correct in the monsoon season and stern intervention from the Govt not likely to occur.

We believe the growth to slowdown in Q1FY20 due to the elections and labour shortage and again pick up strongly only after the monsoon. The second half of the financial year will see activity pick up, led by institutional spending, leading to a rise of 6-7.5% in cement demand. Around 25 lakh housing units are under construction as part of the Pradhan Mantri Awas Yojana-Urban as of April 2019. Moreover, according to Ministry of Rural Development, the Govt. has set a target of constructing 50 lakh housing units under the Pradhan Mantri Awas Yojana-Gramin this fiscal year. Apart from these, ongoing road, metro, and irrigation projects, especially in Maharashtra, Rajasthan, Madhya Pradesh, and Uttar Pradesh, will spur demand in the next 2-3 years.

Petcoke, a major key input, whose price has come down from peak levels of USD120-130 per ton to now USD95 per ton and expected to remain stable in the near term according to the industry. To conclude, we expect the overall cement prices to remain strong for the whole FY20 with a healthy demand from the Trade as well as Non-Trade segment. Also, we expect some slippages in upcoming capacity additions due to Balance Sheet limitations and shortage of limestone availability. Hence, the overall capacity addition may not be in the high levels as have been announced resulting a higher capacity utilisation in the industry.

We prefer Ultratech cement, ACC Ltd and Shree Cement where return ratios are high with strong financials to withstand unfavorable variables. Also, the capacity utilisation in the North is at around 85% which would benefit strategically placed players such as Shree Cements Ltd and J.K Cement from any likely price increase in the North. We also prefer Dalmia Bharat which is fast becoming a Pan-India player. Capacity expansion and improving financials for the company could also make the stock to be re-rated at par with a pan India player.

Appendix -1: Brand wise cement prices in the East

Month	Ultratech	Ambuja	ACC	Dalmia	Birla Corp.	Birla Gold (Now ultratech)	Average	M-oM Change
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%
Jan-19	315	325	330	330	325	320	324	3%
Feb-19	325	335	340	335	330	330	333	3%
Mar-19	325	335	340	335	330	330	333	0%
Apr-19	340	340	350	335	325	330	337	1%
May-19	350	350	370	360	345	350	354	5%

*wholesale prices including GST

Source: SMIFS Research

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