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Cement Sector Update

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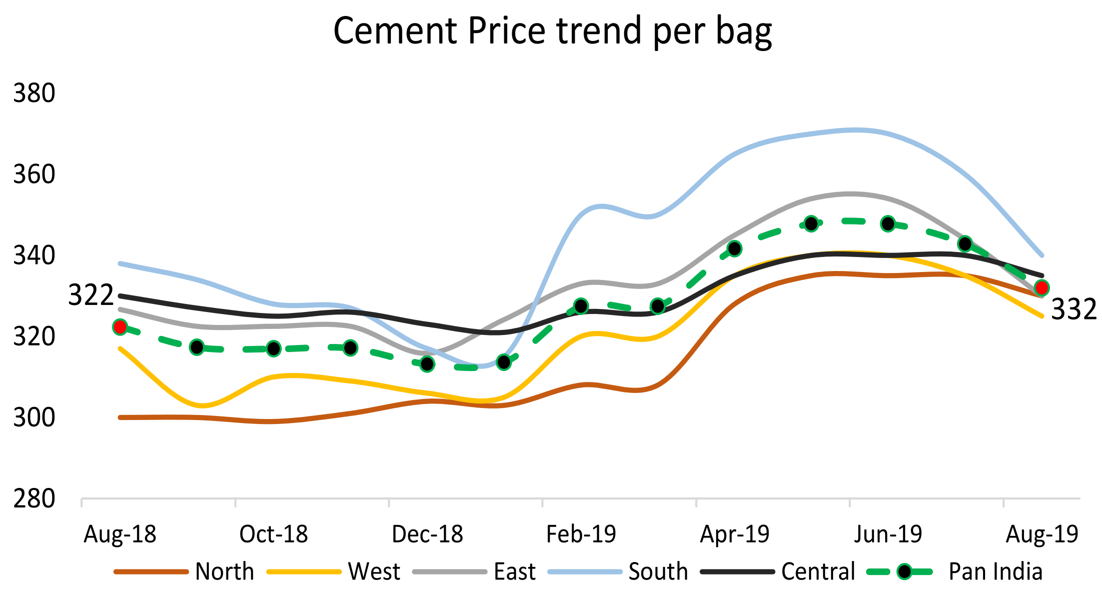
Sector Overview

Reflecting a slowdown in overall construction activity and the subsequent fall in demand, cement companies saw sales volumes contract during the first quarter of FY20. This was primarily due to general elections which led to a halt in government led construction activities and labor shortage. Data from 14 listed cement majors suggest that total volumes sold fell by 2% YoY and by 13% from Q4FY19. However, the companies reported record high profitability in Q1FY20 owing to higher realisations and easing input costs. For 14 listed cement majors average EBITDA per ton were up by 50-55% YoY to an average of INR1182 per ton.

Our channel check suggests that average cement prices per bag in India have come down by INR15-20 per bag to INR332 per bag from June 2019 prices. This is normal phenomenon during the monsoon during which prices typically comes down by INR25-30 per bag. However, demand scenario is very weak due to lack of construction activities and as per the cement dealers expectation of pick up in demand in the next two months. After the Q1FY20 results, the management of most companies has cut their overall cement growth guidance for FY20 by 1-2% to 5-6% in FY20. Hence, with a weak demand how prices pan out in the coming months would be a key metric to monitor.



Source: SMIFS Research

As per our Channel checks:

- In the last two months, prices in the **North and Central region** are stronger than other regions, declining only by INR5 per bag. The Aug-19 price in the North is around INR330, 10% higher than Aug-18 price. The Northern region also witnessing a **high capacity utilisation of 85%.**
- In the same period cement prices have most declined in the **South and Eastern** declined by INR25-30 per bag. The Aug-19 prices in South ad East were INR330 and INR340 respectively.
- While in the **Western** region, prices have fallen by INR15-20 per bag in the last two months.

Q1FY20 performance comparison

Summary of Q1FY20 operating performance									
Entity	Volume (MT)	*growth % (YoY)*	*growth % (QoQ)*	Realisation per ton (INR)	*growth % (YoY)*	*growth % (QoQ)*	EBITDA per ton (INR)	*growth % (YoY)*	*growth % (QoQ)*
Ultra Tech	17.9	2%	-16%	5699	13%	11%	1427	42%	30%
ACC*	7.2	-1%	-4%	5638	8%	8%	1086	26%	53%
Ambuja*	5.8	-9%	-9%	5117	8%	11%	1200	23%	65%
Shree Cement	6.1	-14%	-16%	4669	16%	11%	1479	83%	27%
Dalmia Bharat	4.6	1%	-18%	5576	6%	18%	1470	27%	24%
India Cement	3.0	-1%	-9%	4922	9%	5%	796	57%	38%
J.K Cement	2.3	0%	-20%	5754	19%	11%	1336	83%	38%
J.K lakshmi	2.3	2%	-21%	4472	10%	12%	779	53%	75%
Ramco	2.7	3%	-18%	4995	10%	8%	1331	39%	27%
Birla Corp	3.6	2%	-6%	5008	11%	8%	1068	53%	33%
Star	0.7	1%	-11%	6398	-10%	-3%	1559	-16%	-1%
Sagar	0.8	10%	-13%	4198	13%	8%	959	95%	47%
Heidelberg	1.3	-1%	4%	4623	9%	3%	1291	37%	25%
Sanghi	0.6	-12%	-19%	4843	13%	23%	1161	72%	77%

Source: Company Data, SMIFS Research

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

- *High volume by Shree Cements Ltd is due to lower Non-Trade sales during Q1FY20. The Trade to Non-Trade mix for Shree Cement in Q1FY20 was 85-15 which generally stays at 70-30 in other quarters.*
- *Q1FY20 Results of mid sized companies (capacity less than 20MT) such as J.K Cement, J.K Lakshmi Ramco and Birla Corp were better than large companies.*

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Q1FY20 EBITDA/Ton analysis

Realisation per ton (INR)			
Entity	**Jun-19**	**Jun-18**	***growth % (YoY)***
Ultra Tech	5699	5058	13%
ACC	5638	5203	8%
Ambuja	5117	4736	8%
Shree Cement	4669	4041	16%
Dalmia Bharat	5576	5251	6%
India Cement	4922	4508	9%
J.K Cement	5754	4819	19%
J.K lakshmi	4472	4050	10%
Ramco	4995	4533	10%
Birla Corp	5008	4498	11%
Star	6398	7078	-10%
Sagar	4198	3701	13%
Heidelberg	4623	4227	9%
Sanghi	4843	4281	13%
	Average growth (%)		**10%**

Operating Cost per ton (INR)			
Entity	**Jun-19**	**Jun-18**	*growth (%) YoY*
Ultra Tech	4271	4049	5%
ACC	4552	4340	5%
Ambuja	3917	3760	4%
Shree	3190	3231	-1%
Dalmia Bharat	4105	4089	0%
India Cement	4126	4001	3%
J.K Cement	4418	4089	8%
J.K lakshmi	3693	3542	4%
Ramco	3664	3576	2%
Birla Corp	3940	3799	4%
Star	4839	5231	-7%
Sagar	3239	3211	1%
Heidelberg	3331	3287	1%
Sanghi	3682	3605	2%
	Average growth (%)		**2%**

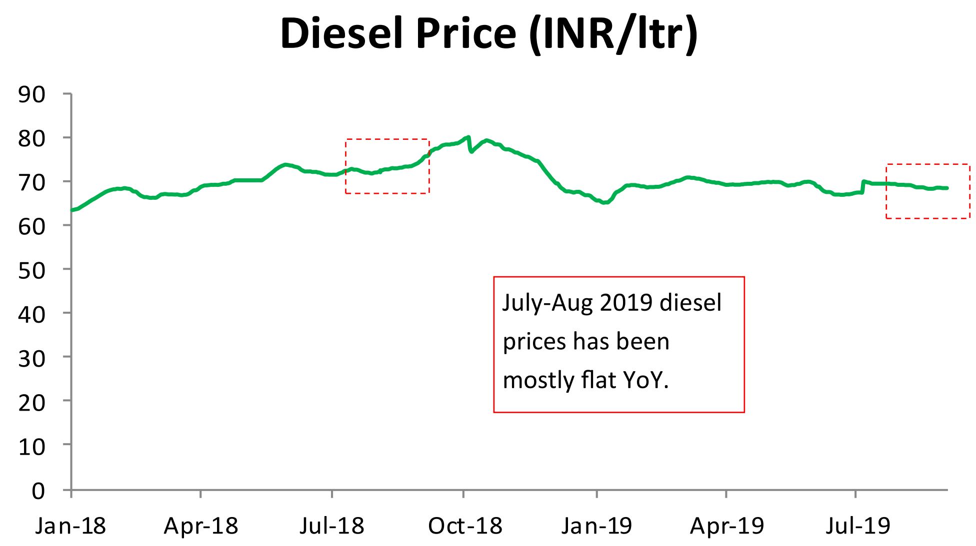
EBITDA per ton (INR)			
Entity	**Jun-19**	**Jun-18**	**growth % (YoY)**
Ultra Tech	1427	1009	42%
ACC	1086	863	26%
Ambuja	1200	976	23%
Shree Cement	1479	810	83%
Dalmia Bharat	1470	1162	27%
India Cement	796	508	57%
J.K Cement	1336	730	83%
J.K lakshmi	779	508	53%
Ramco	1331	957	39%
Birla Corp	1068	699	53%
Star	1559	1847	-16%
Sagar	959	490	95%
Heidelberg	1291	940	37%
Sanghi	1161	676	72%
	Average growth (%)		**48%**

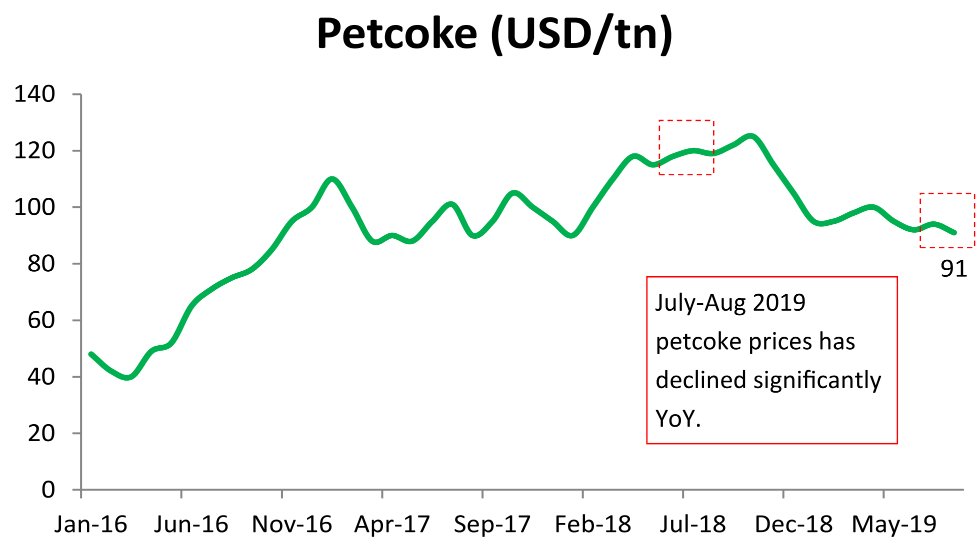
Source: Company Data, SMIFS Research

For Q1FY20, the major driver for massive EBITDA per ton growth was mainly higher realisation led by cement price hike to the tune of INR30-40 per bag taken in Q1FY20. However, due to electoral activities which led to slowdown in construction sector , average volumes growth was more on the flattish side of -1% YoY.

As per our channel check, cement prices in July-Aug-19 have declined by INR15-20 per bag i.e INR300-400 per ton. Moreover, volume growth are on the flattish to slightly negative side. On the other hand, price of pet coke has further declined to USD85-90 per ton which could give some traction to margin improvement. Although Q2FY20 is a seasonally weak quarter for the cement industry, if volume demand fails to pick up from Q3FY20 onwards cement prices to stay under pressure.

Prices of Key inputs





Source: SMIFS Research

In Q2FY19, petcoke prices was at its peak at USD120 levels. In July –Aug 2019 petocke prices are hovering around USD91 per ton i.e 22-24% or INR150-180 per ton ower YoY. We expect power & fuel cost, which is generally 20-22% of total operating cost, on per ton basis to be significantly lower in Q2FY20. Also, Diesel prices which are flattish to slightly lower along with the benefit of axle norms could also give some traction to margin improvement in Q2FY20.

Overall we expect in Q2FY20 Freight and Power & Fuel cost , both of which generally takes up 45-48% of total operating cost, could be lower by INR230-250 per ton YoY.

Q1FY20 Key Concall Highlights

	Ultratech Cement Ltd
1	The Management expects the slowdown to be temporary, all the ongoing long term projects like metro, roads to gain momentum post Diwali.
2	**The Company witnessed revival of demand from July-19 in infrastructure and affordable housing front.**
3	Andhra Pradesh witnessed slowdown at all state level projects, new sand mining policies in Sep-19 which will restore construction activity in AP.
4	The Management expects industry growth to be at 6%-7% for FY20; Expects demand to pick up in H2FY20.
5	The pet coke prices came down by 25%, the current purchase price stood in a range of $75/ton-$80/ton.
6	The Company received the approval of NCLT for takeover of cement business of Century. The other necessary approvals are expected to complete by Q2FY20.
7	Century EBITDA/ton for Jan-Mar-19 stood at Rs. 670/ton.
8	Net Debt of the company reduced by Rs. 1022 cr. while trailing net debt EBITDA stood at 2.24X in 1QFY20 vs. 2.71 in Mar-19.
9	The Company's integration has completed with Nathdwara cement, EBITDA /ton stood at Rs. 1200/ton which achieved breakeven PBT within 2 months.
10	The Decision on Pali Greenfield expansion is currently on Hold.
	Dalmia Bharat Ltd
1	For FY20, the management expects ~6%growth.
2	The company is acquiring land in Rajasthan and Satna (MP), on which management expects greenfield projects to be completed in 3-4 years.
3	Capacity utilisation at DDSPL(formerly Kalyanpur Cement)was 45%.
4	In Q1FY20, the company incurred capex of INR300cr on the East expansion. It guided another INR1000 capex in FY20 and FY21 each for this expansion.
5	Petcoke prices were $87 a ton ($91the quarter prior, $106a year earlier).
6	Flyash prices were INR873 a ton (`860the previous quarter,INR930a year ago).
7	Slag prices were INR1,180 a ton in Q1FY20(INR1298the preceding quarter,INR1295 a year back).
8	Tax cost increased due to tax provision and deferred tax adjustment.
9	Clinker capacity utilisation was 80%.
	J.K Cement Ltd
1	Management expects demand to be flat in H1FY20 and grow in double digits in H2FY20.
2	It expects the cement industry to grow 7-8%, and the company's growth in grey cement in FY20 to come at 10-12%.
3	The Management plans to expand wall putty capacity at Katni by 200,000 tons at INR250m-300m capex, expected to be complete by Q1FY21.
4	The Rajasthan grinding-unit and clinker-capacity expansion would be commissioned by Q2 FY20.
5	The split-grinding units in UP and Gujarat are expected to be commissioned in Q4 FY20.
6	The company expects the benefits of lower pet-coke prices only in Q3FY20 as it has high-cost inventory.
7	The de-bottlenecking of the 5,000 tpd Nimbahera plant would mean a 45-/60-day shutdown, and lead to clinker capacity increasing by 1,000 tpd, and savings in power (~12 units) and in fuel (~40-50 Kcal) at `3.25bn capex.
8	The Company witnessed a rollback of up to 2% in both North & South due to Monsoons in the month of June and July.

Source: Company Data, SMIFS Research

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Q1FY20 Key Concall Highlights

	J.K Lakshmi Cement Ltd
1	Management expects the industry to grow 8-9% in FY20.
2	In Q1FY20 cement and clinker sales volumes grew 2% YoY to 2.33MT. Sales of cement increased 11% YoY to 2.218m tons.
3	The exceptional item of INR302.3m arose on the diminution in value of capital work-in-progress due to impairment for the conveyor belt at the Durg cement plant.
4	The price of pet-coke averaged INR7,800/ton in Q1 FY20 (vs INR8,100 the quarter prior). Management expects this to further soften by INR200/ton in the coming quarter.
5	Trade sales of cement were 64%, non-trade 36%.
6	The management has guided a capex of INR750m-800m in FY20.
	Sagar Cement Ltd
1	The current issues of payments, sand related issues, water related issues are expected to stabilize leading to demand generation from October.
2	FY20 volume growth for AP/Telangana is expected to drop 2% YoY; Karnataka, Kerala and Tamil Nadu would each grow 5% YoY, Maharashtra and Orissa 10% YoY.
3	The management expects sales volumes of 3.6m tons in FY20 at 60-65% utilisation.
4	The company expects more growth in trade volumes than in non-trade volumes in coming quarters.
5	It expects demand to pick up by end-Q3FY20. Water shortage, the sand-mining issue and order cancellations are seasonal issues.
6	Management guided to peak debt of INR800 cr.
7	Capacity utilisation, plant-wise: Mattampally 49%, Gudipadu 69%, Bayyavaram 53%, with total cement sales of 0.82MT
8	Management expects the 18MW thermal plant to be commissioned in Aug'19. This will bring annual savings of INR20cr
9	South- The pricing remained steady despite gradual slowdown due to water shortages, project cancellations and sand mining issues and due to election activities.
	West- Prices in Mumbai saw improvement over previous period while pricing in rest of the region benefitted from the higher prices in South.
	East- Price remained more or less steady; Mgt expects demand and pricing environments to improve led by government initiatives towards improving the infrastructure capacity
	Heidelberg Cement Ltd
1	The management expects the Industry growth should end up at 6-7% growth in FY20 led by Govt. initiatives.
2	The current capacity utilization for Central India stood at ~80%.
3	The Company's Mycem power (Premium product, >13% of trade volume) volume increased 53% YoY.
4	Trade: Non-trade mix stands at 86%. Price difference between trade and non-trade stood at Rs. 700/Ton or Rs. 35/bag.
5	The Company is adding up 0.5 MT capacities and will come on-stream by 2020
6	The Company had Inventory (Petcoke) cover with higher price so the benefit of benign Petcoke price will be seen from coming quarter.
7	Net debt and cash stood as of 1QFY20-Rs. 80 Cr and Rs. 530 Cr.
	Sanghi Industries Ltd
1	In Q1 FY20, the company sold 5.66 lac tons of cement domestically (6.42 lac tons a year ago), with total volumes (incl. RMC and clinker exports) of 6.874 lac tons.
2	Capacity utilisation was 60%.Management expects it to rise from Q3FY20
3	The company expects Q2 FY20prices to hold at the Q1level.
4	Till Jun'19 the company spent `8bn capex (of `13bn). With the Surat grinding unit delayed, management expects some spill-over of capex to FY21
5	Sanghi commands 10%, Ultratech ~40%, Ambuja~15% and JK Lakshmi ~10% of the Gujarat market.
6	The geographical sales-mix was Gujarat 86%, Maharashtra 14%.
7	Capacity utilisation was 60%.Management expects it to rise from Q3FY20

Source: Company Data, SMIFS Research

Region wise Channel check feedback

	Northern Region
1	**Prices are holding storng in most places desipte soft demand. Some places prices has fallen by only INR5 per bag.**
2	Both Trade & Non-Trade demand is very weak in parts of Rajasthan and Punjab. However, in Delhi, Haryana and Western Up demand is slighlty better.
3	**General market view of demand is weak and only to recover after monsoon. However, the dealers are not expectibng heavy price cuts**
4	Rajasthan State Government is considering a framework policy on M-Sand so as to tackle issues pertaining to sand crisis in the state.
	Eastern Region
1	Cement prices saw a sharp decline of INR25-30 per bag in the month of July and Aug.
2	Demand is weak due to lower construction activity in monsoon season.
3	Political unrest in the state of West Bengal is one major drag in cement consumption.
4	In the state of Bihar, delaers expect demand to improve post monsoon led by Govt projects.
5	**General market view of is very weak and unlikley to improve immediately post monsoon. The dealers don't expect heavy price hikes in the near term**
	Central Region
1	**Prices in this region has fallen slightly by INR5-10 per bag only.**
2	Demand holding steady in parts of UP. However, demand in MP declined on seasonal weakness.
3	Dealers indicated prices may soften further in monsoon, while there is no indication from the companies' side as of now.
	Western Region
1	Prices fell by INR15-20 per bag in fron June 2019 due to ealry monsoon and heavy rainfall across the region.
2	Demand has fallen sharply due to heavy monsoon and floods in this region.
3	Dealers expect likely pickup in real estate sector in coming months and pick-up in governments' spending to support demand in ensuing period.
	Southern Region
1	**This region witnessed sharpest delcine in cement prices. Around INR25-30 per bag has declined over the months of July and Aug 2019.**
2	Slowdown in Govt spending in AP and Telangana led by elections, cancellation of several projects and payment related issues resulted in steep price cut.
3	Sand availability is still not a big issue in the state despite the Madras High Court order to tighten the grip on illegal sand mining.
4	Dealers cited that lack of government projects is a major hurdle for demand revival in the city as well as the state.

Source: Company Data, SMIFS Research

Capacity Addition region-wise break up

Clinker capacity Addition by FY21 Region-wise break up (In MT)

S.l	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)

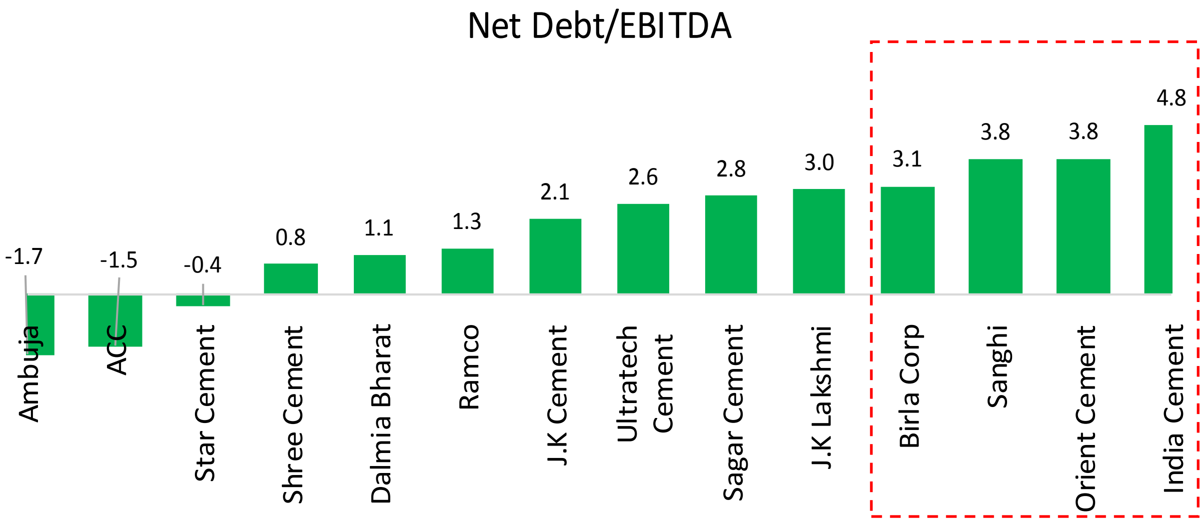
S.l	Name	South	East	Central	West	North
1	Ultratech Cement			4.0		
2	ACC		1.1			
3	Ambuja					1.8
4	Dalmia Bharat		8.1			
5	Shree Cement	3	5.5		2	
6	Ramco	2.1	3			
7	Birla Corp			1.2	3.9	
8	India Cement			1.5		
9	J.K Lakshmi					
10	J.K Cement			1.5	0.7	2.0
11	Sagar Cement	1.5			1	
12	Sanghi				4	
13	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**

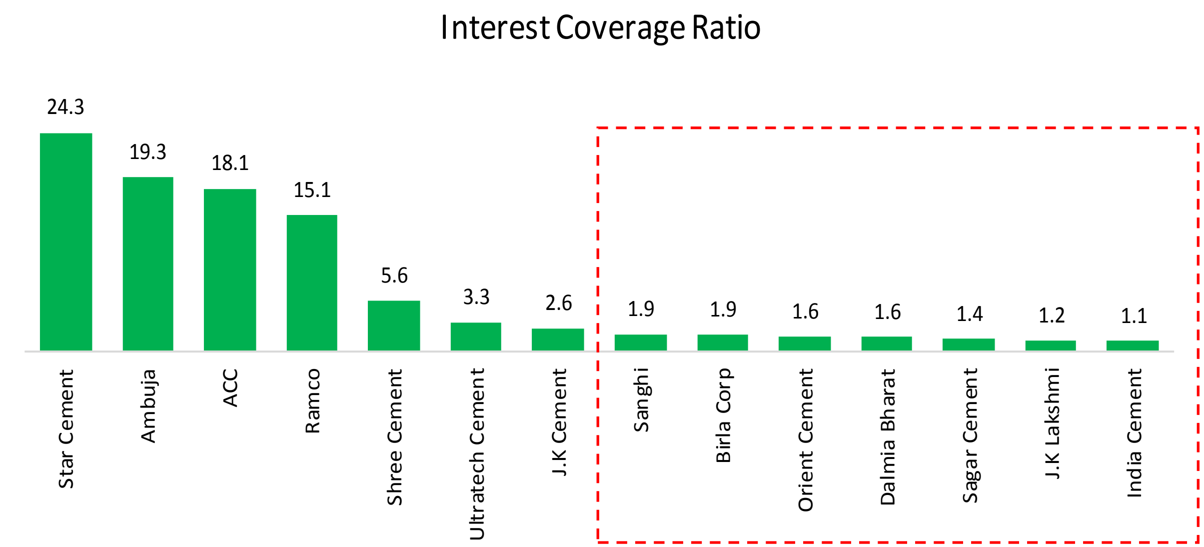
Source: Company Data, SMIFS Research

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 ration 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.

We note that as we have expected earlier in our previous cement sector report, Orient Cement, Sanghi Industries and India Cement had delayed their expansion plans by few quarters.

Source: Company Data, SMIFS Research

Cement Sector update

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
Chattisgargh	Kesla	67.0	8.12.2015	Century Cements
Chattisgargh	Karhi	155.0	8.12.2015	Shree Cements
Chattisgargh	Kesla- II	215.0	21.02.2017	Dalmia Bharat
Chattisgargh	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
Maharshtra	Chandrapur	42.1	5.04.2017	Ambuja Cement
	Total	**2316**		

Source: Minisry 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

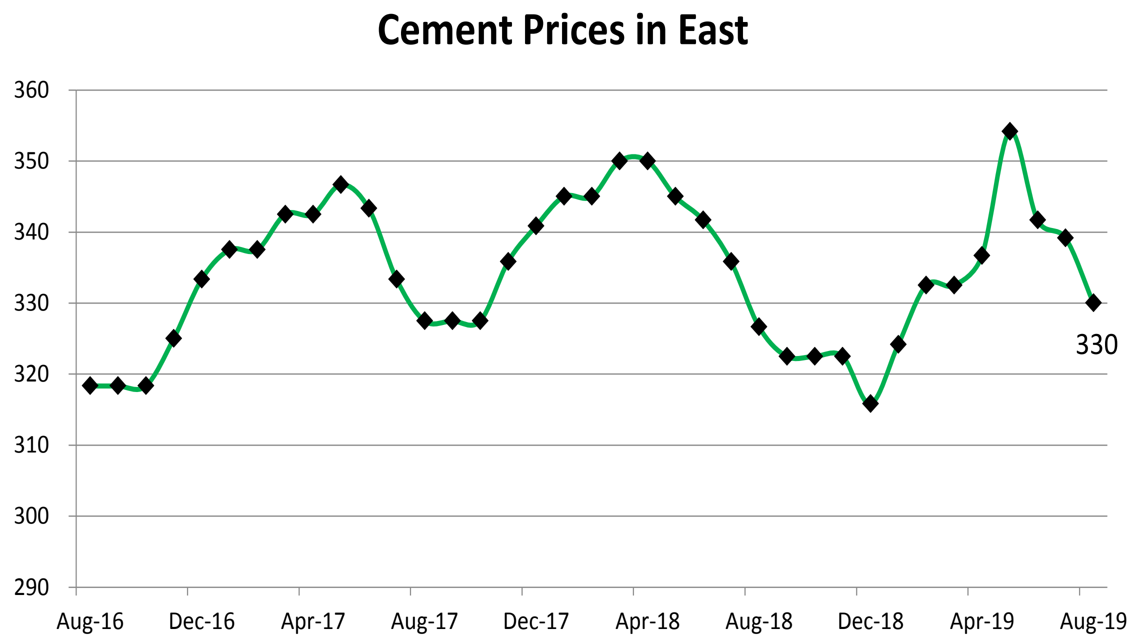
Particulars	FY17	FY18	FY19	FY21E
Installed Cement capacity	440	465	478	530
Intalled Clinker capacity	310	320	328	358
Cement production	280	297	337	401
Clinker production	212	220	244	286
Cement Utilisation (%)	64%	64%	71%	76%
Clinker Utilisation (%)	68%	69%	74%	80%
CC ratio	1.32	1.35	1.38	1.40

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.



Source: SMIFS Research

**wholesale prices including GST*

- In months of July-19 and Aug-19 the cement price has decreased by INR15-20 per bag or 3.5% over June-19 prices.
- Current Aug-19 exit prices have gone down to INR330 per bag.
- Comparing YoY basis in the months of July-19 and Aug-19, cement prices are flat.
- As per our interaction with cement dealers, cement demand is expected to pick up post festive season in Nov and any price hike in between will create more pressure on volume offtake.
- Some Govt contractors are not receiving timely payments from the Govt which why they are facing liquidity issues and eventually leading to project delays.
- Current Freight cost typical for cement transportation remains unchanged i.e. at INR14-16 per ton-km.
- The overall demand scenario were very weak in the months of July and Aug and the dealers don't expect any price hike in near term.

Peer Comparison

Company	CMP	Mcap (INR Cr)	EPS			EBITDA			EV/EBITDA(x)			EV/ton($)			ROE(%)		
			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Ultra tech cement	3877	106497	88.65	139.10	171.50	6749	9602	10805	19..8	13.6	12.1	196.7	181.5	154.0	8.9%	12.2%	12.8%
ACC*	1441	27063	80.97	77.20	84.35	2045	2367	2611	10.6	9.5	9.3	109.8	124.5	112.4	12.6%	12.3%	12.5%
Ambuja*	191	37925	7.49	8.47	8.86	1890	2527	2776	14.9	13.7	13.1	141.8	125.0	109.2	7.8%	8.2%	8.0%
Dalmia Bharat	890	17180	15.79	56.03	71.92	1825	2413	2738	8.1	7.2	5.6	140.4	122.5	96.3	5.4%	6.6%	12.3%
Shree Cement#	**17724**	**61748**	**272.87**	**490.87**	**614.16**	**2614**	**3479**	**3907**	**26.0**	**19.6**	**17.4**	**253.0**	**220.9**	**206.6**	**10.8%**	**15.0%**	**18.9%**
Ramco#	**704**	**16591**	**21.48**	**31.93**	**37.69**	**1046**	**1394**	**1592**	**17.4**	**12.4**	**11.0**	**152.0**	**134.8**	**120.8**	**10.5%**	**16.5%**	**16.4%**
Birla Corp	532	4095	33.20	45.84	50.35	948	1187	1269	7.5	6.0	5.6	68.8	59.8	43.0	5.8%	7.7%	8.1%
India Cement	73	2264	0.62	6.72	8.57	626	845	934	10.2	6.8	6.1	54.5	72.1	61.6	0.5%	4.4%	5.8%
J.K Lakshmi	322	3788	20.70	32.02	34.80	834	656	739	12.1	7.7	6.8	71.1	60.2	47.1	2.8%	3.2%	5.4%
J.K Cement	996	7694	31.12	52.38	57.65	453	1053	1191	10.0	9.3	8.2	120.8	115.9	72.6	11.3%	14.7%	14.3%
Heidelberg Cement	198	4476	9.74	12.59	14.51	484	553	599	8.3	8.0	7.2	118.0	111.1	114.3	19.9%	22.0%	21.4%
Star Cement	93	3907	7.13	7.59	9.22	308	461	529	10.0	8.2	7.2	241.0	179.9	133.7	17.0%	17.1%	17.3%
Orient Cement	81	1652	2.32	6.32	7.68	312	441	492	8.9	6.5	5.9	60.1	48.1	28.3	4.6%	12.8%	16.5%
Sagar Cement	558	1139	6.66	32.35	38.86	147	242	300	11.9	6.8	5.5	50.8	43.1	25.1	1.7%	7.3%	9.2%
Sanghi	48	1197	2.09	3.48	3.80	154	234	319	12.2	7.8	5.6	71.7	73.9	68.8	3.2%	4.9%	5.1%

** CY ending*

 # SMIFS Coverage

Source: Bloomberg, SMIFS Research

Cement sector outlook

Reflecting a slowdown in overall construction activity and the subsequent fall in demand, cement companies saw sales volumes contract during the first quarter of FY20. This was primarily due to general elections leading to a halt in government led construction activities and labor shortage. Our channel checks suggest that YoY demand scenario for Q2FY20 is also quite benign due to lack of Govt led spending. However, considering the Govt stance on Infra and projects in the pipeline we expect the Govt spending to resume from Q3FY20 onwards and with a good monsoon rural economy to also pick up and normalize after the festive season of Oct-2019.

Also price hikes taken in Q1FY20 resulted in sharp improvement in realisations and with benign input cost operating performance for most cement companies witnessed a massive uptick. However, such high realisation is unlikely to sustain as the demand scenario is expected to remain soft with low input prices in FY20. However, cement prices in the Northern region is witnessing a strong hold to previous hikes. This is highly beneficial for North based cement players like ***Shree Cement, Ultratech and J.K Cement.***

Petcoke price has come down from peak levels of USD120-130 per ton to now USD91 per ton and now is expected to decline further in coming quarters. This would further contribute to margin improvement.

Going forward we expect the cement prices to be under pressure given the low offtake in demand. We expect cement demand in the Industry to grow moderately at a rate of 5-6% p.a. in FY20 and pickup to 7-8% in FY21 which could improve the average industry utilisation rate to around 76%. Overall we believe the demand growth rate to moderately outpace the supply growth rate in the next 2 years. It is expected another 20-24MT cement capacities to get added in FY20 and another 35MT in FY21.

We prefer North based cement player like Ultratech, Shree Cements Ltd and J.K Cement where pricing scenario is stronger than other regions due to high capacity utilisation at around 85%. In a weak demand scenario we prefer Ultratech cement which is much better placed in terms of diversified regional sales mix and ACC cement whose return ratios are high with strong financials to withstand unfavorable variables. 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
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%
Jun-19	340	340	360	345	330	335	342	-4%
Jul-19	340	340	350	340	335	330	339	-1%
Aug-19	330	330	330	330	330	325	330	-3%

**wholesale prices including GST*

Source: SMIFS Research

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