



Cement Sector Update

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Sector Overview

Reflecting a muted period in the overall construction activity and subsequent fall in demand, cement industry continues to witness sales volumes contract during the first half of FY20. This was primarily due to lack of Govt spending, tighter liquidity and extended monsoon. Although Q2 is generally a lull period for the cement industry, data from 14 listed cement majors suggest that total volumes sold were flat/slightly fell by 0.4% YoY and by 8.6% QoQ. However, the companies reported record high profitability in Q2FY20 owing to higher realisations and easing input costs. For 14 listed cement majors average EBITDA per ton were up by 30-35%YoY to an average of INR945 per ton.

Our channel check suggests that average cement prices per bag in India have stayed flat to INR330 per bag from Sept 2019 prices due to lack of demand caused by extended monsoon, natural calamities and lack of Govt spending. After the H1FY20 results, the management of most companies has cut their overall cement sector 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.

As per our Channel checks: All cement companies had announced steep price hike from 1st week of November 2019 across all regions. However, due to lack of enough demand these prices have been rolled back.

Northern region: Prices have further gone down by INR10per bag since Sept-2019 to INR310-320 per bag. In Delhi, cement prices are relatively stable whereas in Jaipur and Chandigarh cement prices have gone down by INR10 per bag since Sep-2019. As per the dealers, demand continues to remain low.

Eastern region: Due to lack of demand prices have declined by INR10-15 per bag over Sept-19 prices to INR310 per bag. In Bihar prices were down by INR10 -15 per bag due to heavy flood in some regions. In Kolkata and Bhubaneswar cement prices were down by INR10 per bag.

Western region: Prices have been flat to slightly negative at INR270-280 per bag. Price hikes taken in the 1st week of Nov has been rolled back due to lack of demand. Weak demand can be attributed to extended monsoon and natural calamities in some areas.

Central region: Prices have stayed flat to INR340 per bag compared to Sep-19 prices. In Nov-19 Demand is steady and similar to last month and no hike/reduction has been announced yet.

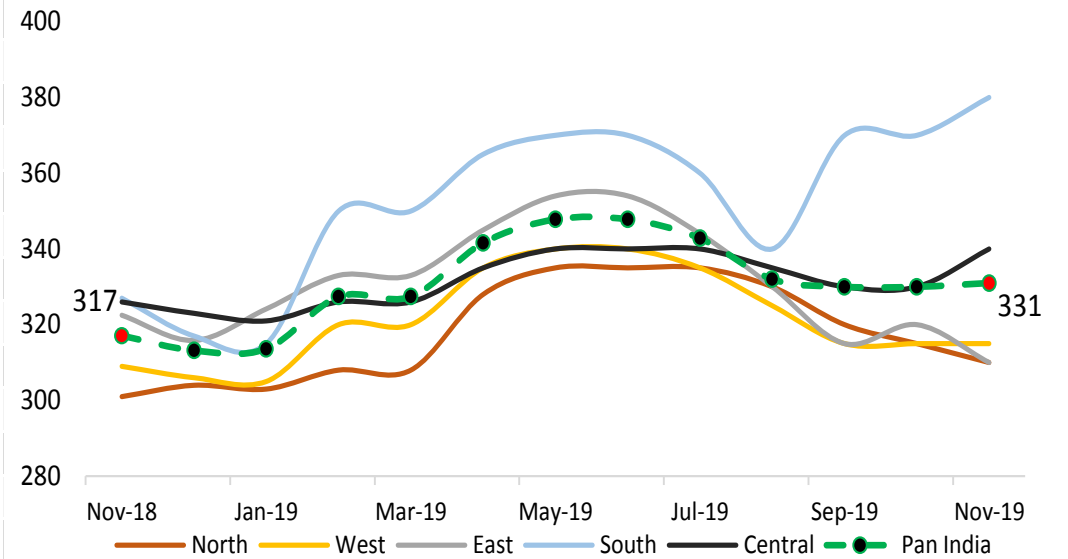
Southern region: Steep price hike taken in 1st week of November has been rolled back to some extent. However, Nov exit prices were still INR10-15 per bag up from Sep-19 prices. In Chennai and Bangalore Cement prices were up by INR15-20 per bag. Whereas, Hyderabad cement prices are up by INR10 per bag.

Sector Overview

Cement Prices across regions

Months	North	West	East	South	Central
Nov-18	301	309	323	327	326
Dec-18	304	306	316	317	323
Jan-19	303	305	324	315	321
Feb-19	308	320	333	350	326
Mar-19	308	320	333	350	326
Apr-19	328	335	345	365	335
May-19	335	340	354	370	340
Jun-19	335	340	354	370	340
Jul-19	335	335	344	360	340
Aug-19	330	325	330	340	335
Sep-19	320	315	315	370	330
Oct-19	315	315	320	370	330
Nov-19	310	315	310	380	340

Cement Price trend per bag



Source: SMIFS Research

Q2FY20 performance comparison

Summary of Q2FY20 operating performance

Entity	Volume (MT)	growth % (YoY)	growth % (QoQ)	Net Revenue (INR)	growth % (YoY)	growth % (QoQ)	EBITDA (INR)	growth % (YoY)	growth % (QoQ)
Ultra Tech	17.5	-2%	-14%	9098	4%	-11%	1813	29%	-35%
ACC*	7.2	-1%	0%	3464	9%	-15%	557	26%	-29%
Ambuja*	5.2	-4%	-10%	2626	0%	-12%	440	23%	-37%
Shree Cement	5.7	2%	-7%	2559	6%	-10%	844	63%	-6%
Dalmia Bharat	4.5	8%	-2%	2236	4%	-12%	471	21%	-30%
India Cement	2.7	-11%	-12%	1245	-10%	-17%	147	-5%	-39%
J.K Cement	2.3	7%	0%	1254	14%	-6%	254	44%	-18%
J.K lakshmi	2.1	-8%	-12%	936	-2%	-10%	149	54%	-18%
Ramco	2.7	10%	1%	1317	15%	-2%	295	19%	-18%
Birla Corp	3.2	4%	-11%	1539	11%	-15%	312	68%	-19%
Star	0.6	9%	-17%	383	6%	-17%	64	-6%	-43%
Sagar	0.7	-1%	-13%	265	3%	-23%	42	101%	-46%
Heidelberg	1.1	1%	-10%	522	9%	-10%	133	14%	-18%
Sanghi	0.5	-27%	-20%	205	-16%	-25%	37	14%	-44%

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

Source: Company Data, SMIFS Research

- In Q2FY20 Results of mid sized companies (capacity less than 20MT) such as J.K Cement, J.K Lakshmi Ramco, Dalmia Bharat and Birla Corp were better than large companies.

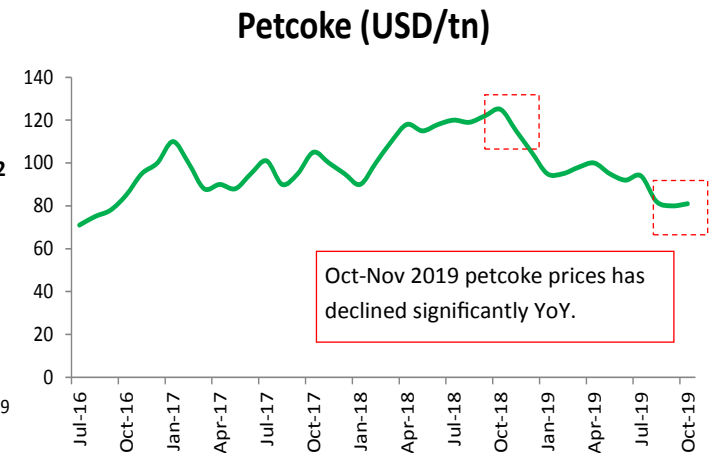
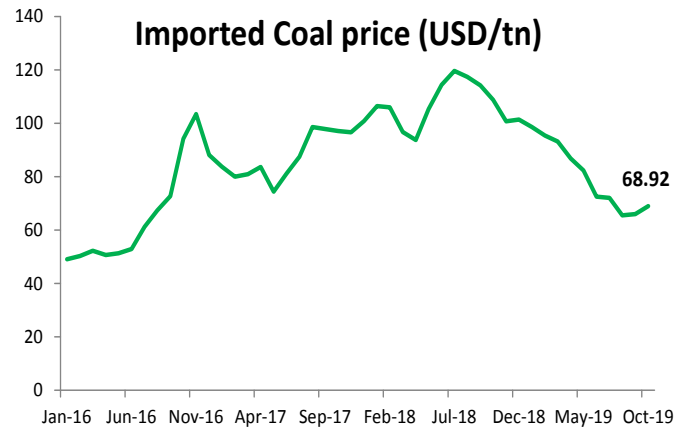
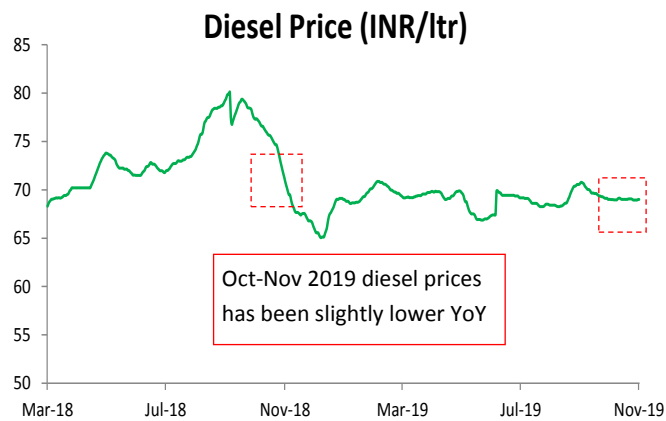
Q1FY20 EBITDA/Ton analysis

Realisation per ton (INR)				Operating Cost per ton (INR)				EBITDA per ton (INR)			
Entity	Sep-19	Sep-18	growth % (YoY)	Entity	Sep-19	Sep-18	growth (%) YoY	Entity	Sep-19	Sep-18	growth % (YoY)
Ultra Tech	5214	4904	6%	Ultra Tech	3657	4049	-10%	Ultra Tech	1039	790	29%
ACC	4798	4380	10%	ACC	4552	4340	5%	ACC	772	608	26%
Ambuja	5021	4788	5%	Ambuja	3917	3760	4%	Ambuja	841	656	23%
Shree Cement	4489	4298	4%	Shree	3190	3231	-1%	Shree Cement	1481	927	63%
Dalmia Bharat	5002	5225	-4%	Dalmia Bharat	4105	4089	0%	Dalmia Bharat	1054	944	21%
India Cement	4668	4608	1%	India Cement	4126	4001	3%	India Cement	552	514	-5%
J.K Cement	5429	5095	7%	J.K Cement	4418	4089	8%	J.K Cement	1100	819	44%
J.K lakshmi	4541	4299	6%	J.K lakshmi	3693	3542	4%	J.K lakshmi	722	433	54%
Ramco	4842	4621	5%	Ramco	3664	3576	2%	Ramco	1085	1001	19%
Birla Corp	4809	4537	6%	Birla Corp	3940	3799	4%	Birla Corp	975	606	68%
Star	6386	6611	-3%	Star	4825	5224	-8%	Star	1075	1254	-6%
Sagar	3732	3574	4%	Sagar	3239	3211	1%	Sagar	597	293	101%
Heidelberg	4605	4281	8%	Heidelberg	3331	3287	1%	Heidelberg	1169	1041	14%
Sanghi	4549	3937	16%	Sanghi	3682	3605	2%	Sanghi	822	523	14%
Average growth (%)			5%	Average growth (%)			1%	Average growth (%)			33%

Source: Company Data, SMIFS Research

- For Q2FY20, the major driver for massive EBITDA per ton growth was mainly higher realisation and lower cost of Power & Fuel and Freight. However, due to lack of Govt spending, tighter liquidity and extended monsoon, average volumes growth was more on the flattish side of 0.4% YoY.

Prices of Key inputs



Source: SMIFS Research

In Q2FY19, petcoke prices was at its peak at USD120 levels. In Oct-Nov 2019 petcoke prices are hovering around USD80-84 per ton i.e 30-32% lower YoY. We expect power & fuel cost, which is generally 20-22% of total operating cost, on per ton basis to be significantly lower in Q3FY20 YoY. 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 Q3FY20.

Overall we expect in Q3FY20 Freight and Power & Fuel cost, both of which generally takes up 45-50% of total operating cost, could be lower by INR230-250 per ton YoY.

Q2FY20 Key Concall Highlights

Ultratech Cement Ltd

- 1 The Management has revised guidance to lower than 6% volume growth for full year
- 2 Demand environment was sluggish during Q2FY20 with most of the regions seeing a decline in volumes except the northern region where there was a growth of ~2-3%.
- 3 **Net Debt current stands at INR18700 crore and the management intends to hive off non-core assets in China, UAE and Europe and utilize the proceeds towards debt repayment.**
- 4 The Bara grinding unit is undergoing trial run and should get operational in Q3FY20 itself.
- 5 Expansion of 3.4 MT by adding grinding capacity in Odisha (greenfield) and West Bengal & Bihar (brownfield). The total investment for these capacities would be INR940 crore.
- 6 The company would be launching UltraTech branded cement from all the plants acquired except from Chhattisgarh where the current brand of Birla Gold will continue for at least a year.
- 7 Nathdwara was PAT accretive in this weak quarter running at 60% utilisation levels.
- 8 Century cement plants remained shut down due to heavy rains and flooding in the state of Bengal, MP, Bihar which resulted in low capacity utilization & lower fixed cost absorption.
- 9 Expect Century EBITDA/ton from century of INR400-500/ton with 60% capacity utilization in next 6 months of operation and to be in line with Ultratech standards in next 12 months.
- 10 Century cement interest charge, depreciation and PAT loss stood at INR66cr, 89cr, and INR100 cr respectively.

Dalmia Bharat Ltd

- 1 Cement demand remained subdued during the quarter due to floods, liquidity issues and decline in India's GDP. The industry is estimated to have declined by 2-4% in 1HFY20.
- 2 **Company expects demand recovery post the festive season; therefore FY20 is expected to witness demand growth of 3-4%.**
- 3 Slag prices for the quarter stood at INR1,095/t v/s INR 1,180/t in 1QFY20 and INR1,385/t in 2QFY19
- 4 Petcoke prices stood at USD84/t during 2QFY20 v/s USD87/t in 1QFY20 and USD106/t in 2QFY19. Petcoke constituted ~75% of the fuel mix.
- 5 Power consumption was at 70Kwh/t in 2QFY20.
- 6 Diesel prices were unchanged in 2QFY20 (INR65/liter in 1QFY20); in 2QFY19, diesel price was at INR70/liter
- 7 Company repaid gross debt of INR2.18b in 2QFY20 and INR6.2b in 1HFY20. Gross debt currently stands at INR53b while net debt is INR34b.
- 8 The capacity expansion in East India is on track. By Mar'20, company plans to add clinker capacity of 3.1mt at Rajganjpur in Odisha, and grinding unit of 3.5mt capacity at Bokaro and Mednipur.
- 9 Despite a challenging environment, Dalmia Bharat can achieve robust volume growth of 8% YoY in 2QFY20 led by increased sales of premium products.

J.K Cement Ltd

- 1 **The Management expects volumes to increase in 2HFY20 led by higher demand and commercial production from new capacities.**
- 2 The Company witnessed rollback of prices up to 2% due to Monsoons and flood conditions in various parts of India.
- 3 The Company has commissioned 1 MnTPA grey cement grinding unit and 2.64 MnTPA of grey clinker at Nimbahera.
- 4 1 MnTPA grinding unit at Mangrol is at advance stage and is expected to complete by 3QFY20; 0.7 MT Brownfield project in Balasinor is expected to complete by March 2020.
- 5 Greenfield project (GU) of 1.5 MT at Aligarh is expected to complete by Jan-19. The Total amount spent for the expansion up to Sep-19 stood at INR1188 cr. out of total cost of INR2000 cr.
- 6 The Company's overall utilization in North and South stood at 78% and 51% in 2QFY20.
- 7 Total wall putty segment is growing at 6% to 3-3.5Mn with company's share at 25% in 2QFY20.
- 8 **The Management expects the sales volumes to be at 8.5MT for FY20.**
- 9 The Management expects the cost benefit from new kiln to the extent of INR100/ ton from North India and is likely to operate from Q4FY20 or by Q1FY21

Q2FY20 Key Concall Highlights

J.K Lakshmi Cement Ltd

- 1 Q2 FY20 cement sale volumes (including clinker) declined 3% YoY to 2.06MT (1.32MT of clinker).
- 2 The price of pet-coke averaged INR7,500/ton in Q2 FY20 (INR7,800 the quarter prior). Management expects this to further soften by INR200/ton in the coming quarter.**
- 3 Overall trade sales of cement were 58%; in the east trade sales were 65%.
- 4 Savings in freight cost were due to lower clinker sales, and freight rationalisation with the help of BCG Consulting.
- 5 In H1FY20 East and North saw a 4-5% decline in volumes. Demand from private housing was impacted due to the lengthened monsoon.
- 6 In FY20, the company targets to further repay a INR125 cr- INR150 cr debt.**

Sagar Cement Ltd

- 1 Capacity utilisation, plant-wise: Mattampally 42%, Gudipadu 67%, Bayyavaram 46%, with total cement sales of 0.71m tons.
- 2 The trade/non-trade mix was 44:56. The company expects more trade sales, post-Nov'19.
- 3 Average fuel cost a ton in Q2 FY20 was `854 (`980 a year prior) lower due to optimisation of thermal efficiency and an optimal fuel mix (100% petcoke).
- 4 Capex of INR65 cr was incurred in H1 FY20 on the coming expansions. Management guided to maintenance capex of INR30cr for FY20.
- 5 Expansion plans are on track. Plant orders have been placed and civil work is in progress.
- 6 For FY20 YoY volume growth for the South is estimated at 2-3% (AP/Telangana is expected to be flattish/negative; Karnataka and Tamil Nadu would each grow 5-10% YoY) and Odisha, 7-10% YoY.
- 7 The company expects demand to pick up by end-Q3 FY20. Water shortage, the sand-mining issue and order cancellations are seasonal issues.
- 8 Petcoke prices are in a declining trend and are now \$75/ton, expected to further decline to \$72.**

Heidelberg Cement Ltd

- 1 Cement volumes remained impacted on account of extended monsoon, flood in certain parts of India and sand issues.
- 2 The Management expects volumes to remain subdued on account of Dussehra and Diwali for October-19 month and expects to pick up from Nov-19.
- 3 The Pet coke and coal consumption cost stood at Rs. 1.34/kcal & Rs. 1.22/kcal as of Oct-19 while the benefit of reduced Pet coke price is expected to come in coming quarters.
- 4 The Management expects the saving of Rs. 40-50/ ton from power & Fuel in coming quarter by altering fuel mix.**
- 5 The Management expects good quantum of sand coming into the markets of central India by 10-Nov-19.
- 6 The Company is emphasizing on increasing the power supply from third party (cheaper source than grid power) & WHRS plant from Grid power.
- 7 Debottlenecking process is running as per planned schedule. However, the third phase of debottlenecking may extend till Mar-21. Post that the company may look for expansion.**
- 8 The Management expects cement demand to pick up in Nov & Dec with the availability of sand.
- 9 The Company will not compromise pricing to attract volumes for its premium product (MYCEM).
- 10 The Management expects cement prices to remain soft in Oct-19, take up in mid Nov-19, some more increase in prices in 1st week of dec-19.

Sanghi Industries Ltd

- 1 Management believes that higher rainfalls (160% above normal levels) and cyclones impacted volumes in Q2FY20
- 2 The company has sold 36% in the trade segment vs. 33% in Q2FY20. Out of the 67% of sales volumes in non-trade, the company sold 31% as bulk cement.
- 3 Interest expenses were higher due to an increase in working capital. This could be attributed to the increased investment in coal and higher inventories.**
- 4 Raw materials costs were higher due to 15,000 tons of clinker purchased from outside.
- 5 Power and fuel costs were lower on account of better lignite availability (35% vs. 25% in Q1FY20) and a 12% yoy drop in coal costs.
- 6 Clinker capacity of 3.3MT and grinding capacity of 2.1mt at Kutch, Gujarat, are on schedule and will be commissioned by Mar'20. However, the grinding unit of 2.1MT at Surat, Gujarat, has been deferred considering weak demand conditions.**

Capacity Addition in the pipeline—region-wise break up

Clinker capacity Addition by FY22 Region-wise break up (In MT)						
S.I	Name	South	East	Central	West	North
1	Ultratech Cement					
2	ACC			3		
3	Ambuja					3.1
4	Dalmia Bharat		3.1			
5	Ramco	3.8				
6	Birla Corp				3.9	
7	J.K Cement					
8	Sagar Cement					
9	Sanghi				3.3	
10	Chettinand Cement					
11	JSW cement					
12	Penna Cement	2.6				
13	Wonder Cement					2.6
14	Others	2.01				
	Total	8.4	3.1	3.0	7.2	5.7

** announced in Q2FY20 earnings call

*Company has postponed 2MT GU at Surat due to weak demand, while 2.1MT GU in Kutch is on track

Cement capacity Addition by FY22 Region-wise break up (In MT)						
S.I	Name	South	East	Central	West	North
1	Ultratech Cement		3.4**	4.0		
2	ACC		1.1			
3	Ambuja					1.8
4	Dalmia Bharat		8.1			
5	Shree Cement				2	
6	Ramco	2.1	2			
7	Birla Corp			1.2	3.9	
8	India Cement			1.5		
9	J.K Lakshmi					
10	J.K Cement			1.5	0.7	1.0
11	Sagar Cement	1.5			1	
12	Sanghi*				2.1	
13	Chettinand Cement	2				
14	JSW cement		1.2			
15	Penna Cement	2.1				
16	Wonder Cement					
17	Emami Cement		2.5			
18	Others	3.2				
	Total	10.9	14.9	8.2	9.7	2.8

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 3MT clinkerisation unit in Meghalaya (North East) and has applied for environmental clearance.

2) Ultratech could plan 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.

3) J.K Lakshmi is also expected to announce brownfield 2.5MT GU in 6-9 months.

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.**

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	4211	121544	88.65	137.52	166.88	6749	9706	10838	20.3	14.6	12.2	196.7	172.0	160.0	8.9%	11.9%	12.2%
ACC*	1508	28317	80.97	75.83	83.89	2045	2387	2624	12.1	9.3	8.8	109.8	103.0	98.0	12.6%	12.2%	12.3%
Ambuja*	202	40119	7.49	7.31	7.91	1890	2224	2429	13.4	11.5	10.3	141.8	123.0	118.0	7.8%	6.9%	7.6%
Dalmia Bharat	863	16649	15.79	21.63	28.99	1825	2309	2595	10.2	8.9	7.7	120.4	98.0	74.0	5.4%	4.0%	5.0%
Shree Cement#	20504	73981	272.90	490.80	614.10	2614	3479	3907	27.9	21.0	18.7	271.3	236.9	221.6	10.3%	16.5%	17.8%
Ramco#	785	18498	21.50	32.70	39.70	1035	1417	1662	18.4	13.0	10.9	160.8	139.1	122.9	11.3%	15.1%	16.0%
Birla Corp	648	4991	33.20	60.26	62.39	949	1366	1434	7.7	6.1	5.9	68.8	66.0	61.0	5.8%	10.3%	9.7%
India Cement	77	2392	0.62	5.64	7.86	626	843	914	10.2	7.0	6.7	54.5	54.0	52.0	0.5%	3.4%	4.5%
J.K Lakshmi	283	3363	20.70	19.60	24.13	454	708	766	9.8	6.0	5.2	72.0	61.0	55.0	11.3%	14.0%	15.0%
J.K Cement	1151	8892	31.12	66.51	72.13	834	1147	1287	12.9	9.3	8.2	125.0	107.0	104.0	12.8%	15.6%	14.9%
Heidelberg Cement	184	4191	9.74	12.97	14.89	483	567	613	8.3	7.6	6.3	118.0	104.0	91.0	19.9%	22.8%	22.4%
Star Cement	91	3753	7.13	7.08	8.44	449	416	502	8.8	7.9	6.9	121.0	105.0	99.0	17.0%	15.3%	16.7%
Orient Cement	74	1524	2.32	5.85	7.33	312	403	452	8.9	7.4	6.4	60.1	54.0	53.0	4.6%	9.2%	11.7%
Sagar Cement	527	1157	6.66	31.06	41.62	147	235	279	11.9	8.5	7.5	60.8	54.0	42.0	1.7%	7.1%	8.0%
Sanghi	37	941	2.09	3.51	3.17	154	230	289	12.2	12.6	10.9	71.7	79.0	40.0	3.2%	5.1%	4.4%

* CY ending

SMIFS Coverage

Source: Bloomberg, SMIFS Research

Cement sector outlook

Reflecting a muted period in the overall construction activity and the subsequent fall in demand, cement industry continues to witness sales volumes contract during the first half of FY20. This was primarily due to lack of Govt spending, tighter liquidity and extended monsoon. However, considering the projects in the pipeline we expect the demand to gradually pick up as construction activities for Govt housing and Infra projects have started to pick up and expected to come in full swing from Q4 onwards. Also due to good monsoon we expect demand from rural housing to be strong in the coming months.

All India cement prices have stayed flat mostly since Sept-2019. From 1st week of November, all cement companies announced a price hike to the tune of INR40-70 per bag across all regions. However, insufficient demand price hikes has been mostly rolled back. According to our view, price hike taken in Nov were too aggressive given the weak demand just after the festive season. However, cement prices in the Northern region is witnessing a relatively stronger hold than other regions. 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 USD80-84 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 4-5% 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. Close to cement capacity 6-8MT has been added in the H1FY20. It is expected another 10-12MT cement capacities to get added in FY20 and 20-24MT in FY21-FY22.

We continue to 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.	Average	M-oM Change
Nov-17	325	335	345	350	335	338	3%
Dec-17	325	345	345	360	345	344	2%
Jan-18	330	350	345	365	350	348	1%
Feb-18	330	350	345	365	350	348	0%
Mar-18	335	355	350	370	355	353	1%
Apr-18	335	355	350	370	355	353	0%
May-18	330	355	345	360	350	348	-1%
Jun-18	325	350	340	355	345	343	-1%
Jul-18	320	345	335	350	340	338	-1%
Aug-18	310	335	325	340	330	328	-3%
Sep-18	310	330	320	335	325	324	-1%
Oct-18	310	330	320	335	325	324	0%
Nov-18	310	330	320	335	325	324	0%
Dec-18	305	315	320	320	320	316	-2%
Jan-19	315	325	330	330	325	325	3%
Feb-19	325	335	340	335	330	333	2%
Mar-19	325	335	340	335	330	333	0%
Apr-19	340	340	350	335	325	338	2%
May-19	350	350	370	360	345	355	5%
Jun-19	340	340	360	345	330	343	-3%
Jul-19	340	340	350	340	335	341	-1%
Aug-19	330	330	330	330	330	330	-3%
Sep-19	325	325	320	320	310	320	-3%
Oct-19	310	310	320	310	310	312	-3%
Nov-19	305	305	315	305	305	307	-2%

*wholesale prices including GST

Source: SMIFS Research

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