

## Sector update

## Top picks

- Shree Cement
- UltraTech Cement

## INDIA

## Cement

## Prices resilient in Q3; consensus upgrades to continue

Our channel checks suggest industry demand likely grew in mid-single digit YoY during Oct-Nov'20 led by >10% YoY growth in North, Central and East regions, while South still continues to decline YoY with West region may be broadly flat YoY. Unlike previous years, which usually witnessed 2-4% QoQ price decline in Q3, average prices are resilient and broadly trending flat QoQ in Q3FY21 till date. On a YoY basis, average pan-India prices are up 7% YoY in Nov'20 led by 18% YoY rise in South and 4-8% YoY increase in North, Central and West regions with almost flat prices YoY in East. Consensus FY21E / FY22E EBITDA has been upgraded by 25%/15% over the past five months and we see an upside risk to these estimates. SRCM and UTCEM remain our top picks. We also like ACEM, JKCE and TRCL.

- ▶ **Industry volumes expected to grow in mid-single digit YoY during Oct-Nov'20** (our estimate) with pan-India utilisation at ~73%. Given the shift in festive holidays to Nov'20 this year, combining Oct-Nov volumes together will be better for more meaningful comparison. While rural and semi-urban housing demand continues to drive growth, pick-up in government-led infrastructure and non-trade demand likely aided growth. Pent-up urban demand (mostly non-trade), especially in South and West, may improve going ahead with gradual return of migrant workers. **We continue to factor in low single digit decline in industry volumes for FY21E since Apr'20 vs consensus view of at least low double-digit decline.**
- ▶ **Average pan-India prices up 7% YoY during Nov'20** led by ~18% YoY increase in South. Prices are up 4-8% YoY in North, Central and West and almost flat YoY in East during Nov'20. Companies may partially switch to coal owing to sharp increase in pet coke prices, which may restrict power and fuel costs/te increase to 10% and overall costs/te are still likely to be broadly flat YoY in H2FY21E. Accordingly, **companies may report strong 30-35% YoY EBITDA growth** in H2FY21E led by 10%/5% YoY volume/realisation growth, respectively.
- ▶ **Stocks rally backed by strong earnings growth/visibility; sector outperformance to continue:** Average EBITDA/te for the sector grew by 30% in FY20 which further increased by 20% in H1FY21 led by firm prices and lower costs, despite weak volumes. With improving volume / prices, investors are likely to get more convinced about sustainability of these EBITDA/te for the sector (except South region).
- ▶ **We prefer companies with higher volume growth visibility and higher exposure to North and Central regions** as demand improvement amidst delay in clinker additions (by UTCEM in Central and ACEM in North) would likely lead to >90% utilisation in these regions during H1CY21 and may lead to strong prices /margins.

## Valuation summary

Company	Rating	TP (Rs/sh)	P/E (x)			EV/EBITDA (x)			EV/t (USD/t)		
			FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UTCEM	BUY	5,725	26.6	22.3	19.2	13.8	11.8	10.3	174	161	150
ACC*	BUY	1,830	24.9	19.4	17.1	10.9	8.9	7.9	106	103	99
ACEM*	BUY	300	22.9	19.3	16.6	11.7	9.7	8.2	126	119	114
SRCM	BUY	28,000	38.9	30.3	25.2	20.3	16.0	13.4	240	226	203
DALBHARA	ADD	1,020	88.3	22.0	22.0	8.1	7.5	6.6	104	86	82
TRCL	BUY	960	26.7	23.7	18.9	15.7	13.0	10.7	174	155	149
JKCE	BUY	2,370	24.1	18.5	15.5	12.0	9.7	8.4	118	99	89
ICEM	SELL	100	75.7	23.1	21.0	13.3	10.4	9.5	74	72	71
JKLC	BUY	475	11.4	9.8	8.7	5.7	5.5	5.3	56	59	61
ORCMNT	BUY	93	11.2	8.8	8.6	5.5	4.7	5.3	40	38	43
PRSMJ	ADD	85	38.9	15.9	13.2	9.1	6.3	5.4	102	83	72
HEIM	BUY	230	17.1	13.5	11.6	8.2	6.4	5.6	91	84	81
GRASIM	ADD	875	47.6	12.3	8.8	15.8	7.0	5.3	-	-	-

Source: I-Sec research \*Dec year-ending

Please refer to important disclosures at the end of this report

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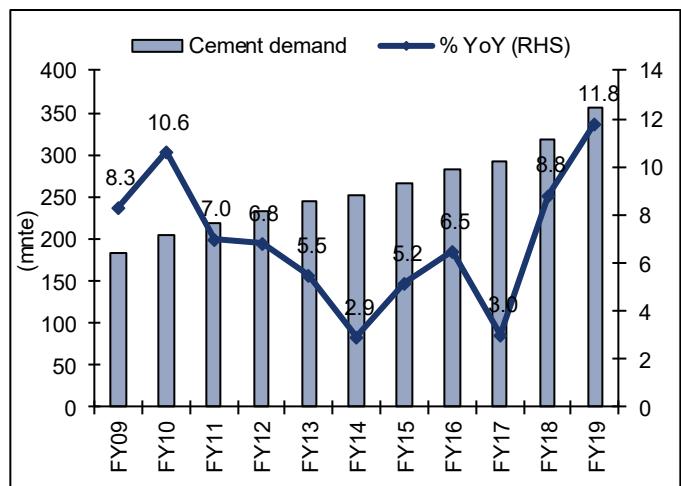
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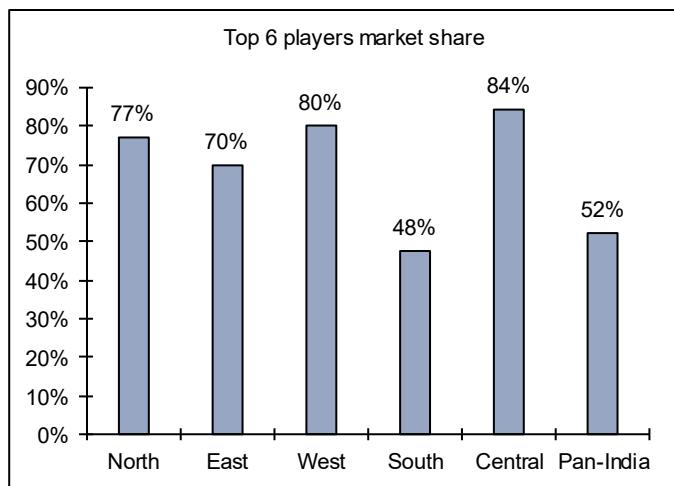
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**Chart 1: Demand has grown at ~7% CAGR over past 10 years despite yearly volatility**



Source: I-Sec research

**Chart 2: High market concentration to aid firm pricing**



Source: I-Sec research

**Table 1: Cement utilisation unlikely to decline over FY20-FY22E**

Utilisations (%)	FY18	FY19	FY20	FY21E	FY22E
North	79	81	83	83	85
Central	80	82	83	83	83
East	79	85	84	83	82
West	67	71	67	68	67
South	57	66	60	62	63
<b>All-India</b>	<b>70</b>	<b>75</b>	<b>74</b>	<b>74</b>	<b>74</b>

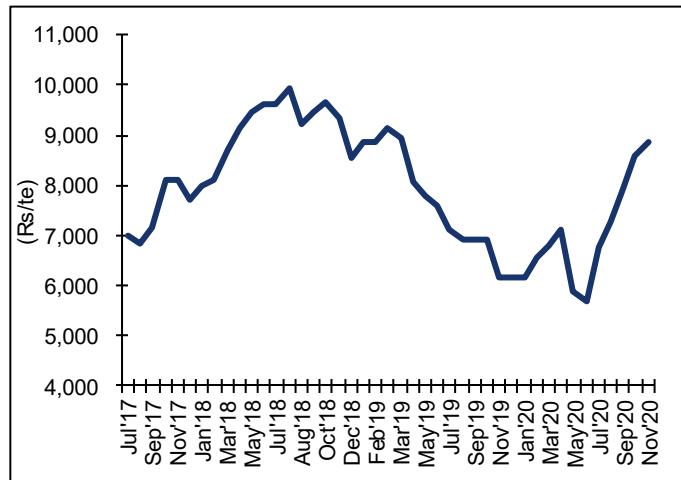
Source: Industry sources, I-Sec research

**Table 2: Clinker utilisation to remain at 78-79% over FY20-FY22E**

	FY19	FY20	FY21E	FY22E
<b>North, Central and East (combined)</b>				
Clinker capacity	157	160	168	176
Clinker utilisation	84	86	86	85
<b>South and West (combined)</b>				
Clinker capacity	161	164	170	175
Clinker utilisation	72	69	70	72
<b>All-India</b>				
Clinker capacity	318	324	338	351
<b>Clinker utilisation</b>	<b>78</b>	<b>78</b>	<b>79</b>	<b>79</b>

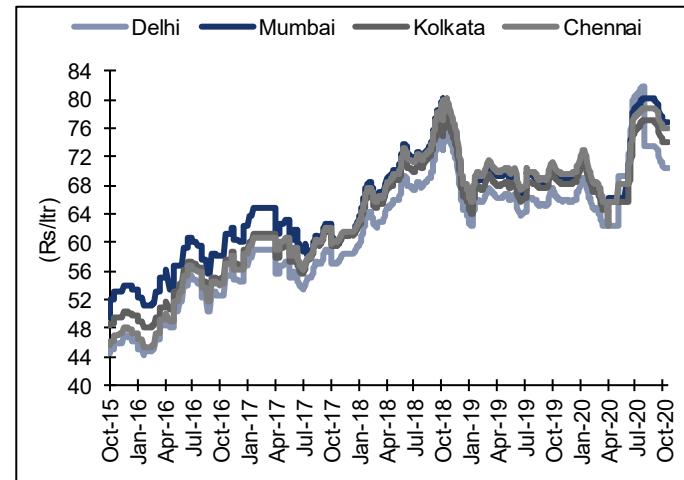
Source: I-Sec research

**Chart 3: Domestic petcoke prices increased 3% MoM / 43% YoY in Nov'20**



Source: Industry data, I-Sec research

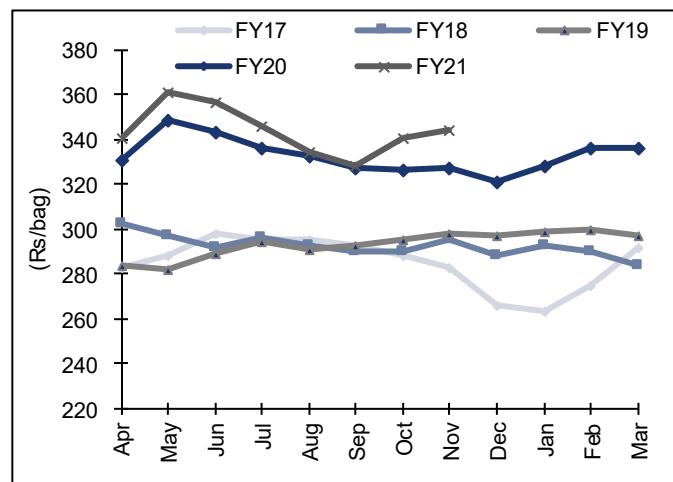
**Chart 4: Diesel prices increased 8% YoY/ declined 2% MoM in Oct'20**



Source: Bloomberg, I-Sec research

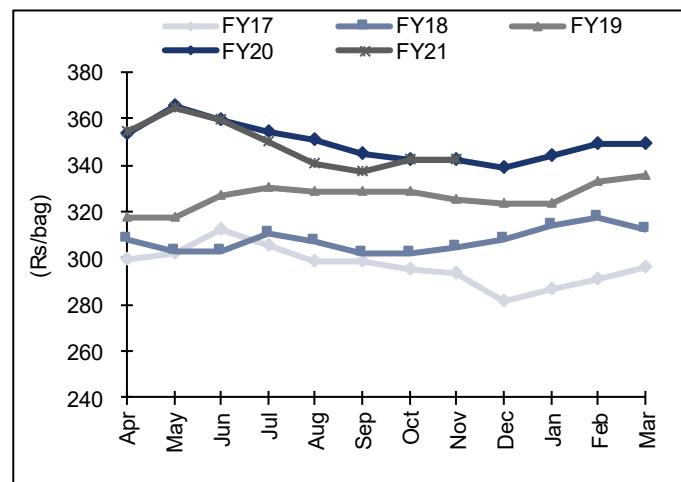
## Cement prices

**Chart 5: North region prices up 6% YoY**



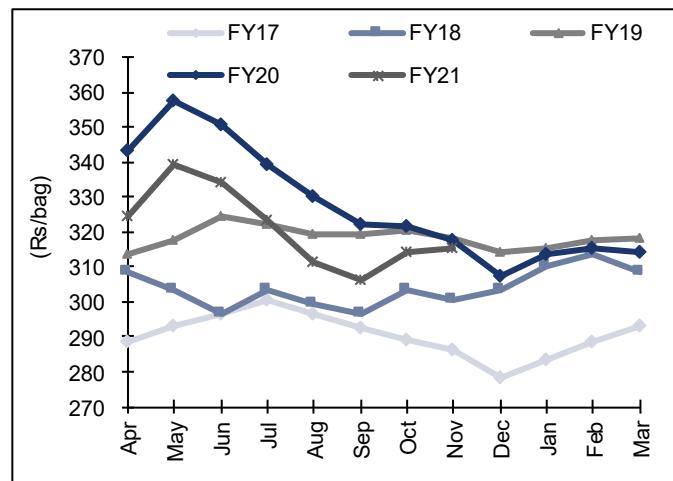
Source: Industry data, I-Sec research

**Chart 6: Central region prices up 4% YoY**



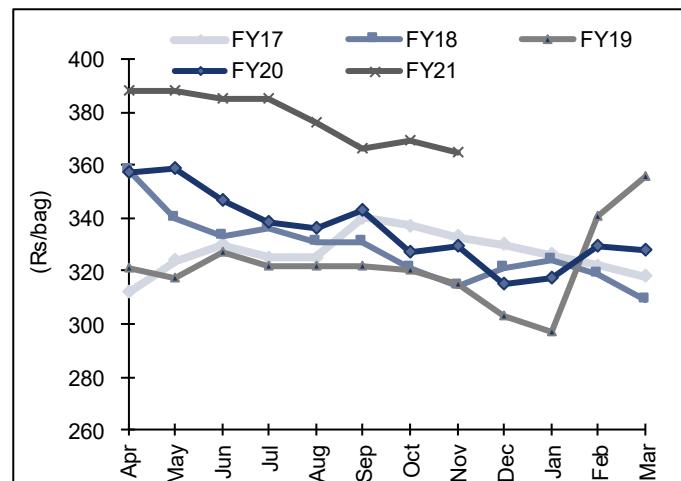
Source: Industry data, I-Sec research

**Chart 7: East region prices broadly flat YoY**



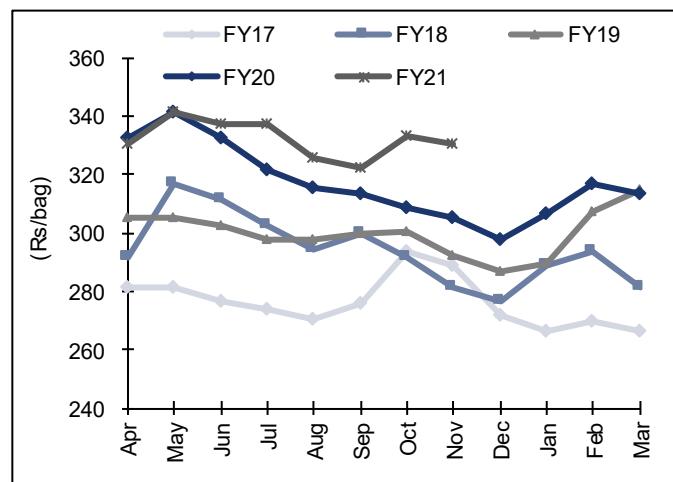
Source: Industry data, I-Sec research

**Chart 8: South region prices up 18% YoY**



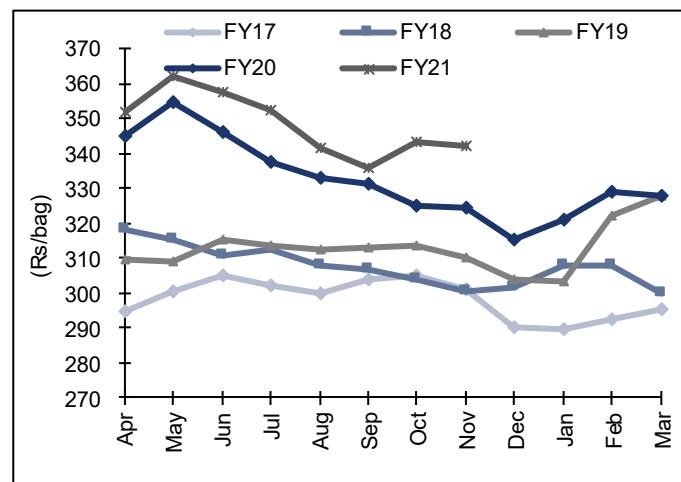
Source: Industry data, I-Sec research

**Chart 9: West region prices up 8% YoY**



Source: Industry data, I-Sec research

**Chart 10: All-India region prices up 7% YoY**



Source: Industry data, I-Sec research

## Key assumptions

**Table 3: Volume growth assumptions over FY20-FY23E**

	Total volumes (mnte)				Growth YoY (%)			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
UTCEM	82.3	83.8	94.5	101.0	7.8	1.8	12.7	6.9
ACC	28.9	26.2	29.8	31.3	1.9	(9.2)	13.5	5.0
ACEM	24.1	22.3	26.1	28.4	(0.8)	(7.4)	17.0	9.0
SRCM	28.7	30.9	36.2	40.2	(0.0)	7.6	17.2	10.9
DALBHARA	19.3	20.6	23.9	26.1	3.3	7.0	16.0	9.0
ICEM	11.0	8.8	10.8	11.6	(11.4)	(19.9)	22.0	8.0
JKCE	10.2	11.4	13.3	14.4	0.2	11.5	16.3	8.7
TRCL	11.2	10.6	13.1	14.6	0.7	(5.5)	24.0	11.0
JKLC	10.0	11.0	12.2	13.0	(9.8)	9.1	11.5	6.6
ORCMNT	5.8	4.8	5.8	6.4	(9.5)	(18.0)	22.0	10.0
PRSMJ	5.7	5.7	6.4	6.6	(8.7)	-	11.0	4.0
HEIM	4.7	4.5	5.0	5.3	(3.9)	(4.4)	11.2	5.0
<b>Total</b>	<b>242.1</b>	<b>240.7</b>	<b>277.1</b>	<b>298.9</b>	<b>1.3</b>	<b>(0.6)</b>	<b>15.1</b>	<b>7.9</b>

Source: Company data, I-Sec research

**Table 4: Realisation growth assumptions over FY20-FY23E**

	Realisation (Rs/te)				Growth YoY (%)			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
UTCEM- blended	5,038	5,075	5,177	5,250	4.6	0.7	2.0	1.4
ACC - blended	5,156	5,132	5,305	5,425	2.7	(0.5)	3.4	2.3
ACC - grey cement	4,723	4,816	4,898	4,996	1.8	2.0	1.7	2.0
ACEM	4,717	4,927	5,041	5,177	4.2	4.5	2.3	2.7
SRCM	4,299	4,360	4,485	4,596	5.2	1.4	2.9	2.5
DALBHARA - cement	4,691	4,761	4,666	4,712	(1.1)	1.5	(2.0)	1.0
ICEM	4,672	4,905	4,846	4,919	1.5	5.0	(1.2)	1.5
JKCE- blended	5,603	5,446	5,577	5,698	10.5	(2.8)	2.4	2.2
TRCL	4,736	5,158	5,065	5,194	3.8	8.9	(1.8)	2.6
JKLC	4,342	4,321	4,409	4,473	12.1	(0.5)	2.0	1.4
ORCMNT	4,171	4,526	4,467	4,445	6.3	8.5	(1.3)	(0.5)
PRSMJ	4,516	4,516	4,570	4,616	2.1	-	1.2	1.0
HEIM	4,586	4,664	4,780	4,886	6.5	1.7	2.5	2.2
<b>Weighted average</b>	<b>4,827</b>	<b>4,897</b>	<b>4,974</b>	<b>5,061</b>	<b>4.6</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>

Source: Company data, I-Sec research

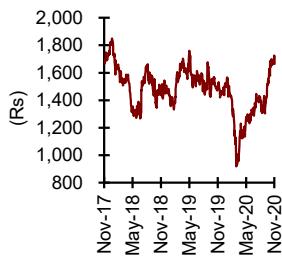
**Table 5: EBITDA/te growth assumptions over FY20-FY23E**

	EBITDA/te* (Rs)				Growth YoY (%)			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
UTCEM- consol.	1,144	1,298	1,302	1,343	28.7	13.5	0.3	3.1
ACC	835	914	974	1,023	11.8	9.4	6.6	5.0
ACEM	893	1,168	1,173	1,263	14.5	30.8	0.5	7.6
SRCM	1,288	1,305	1,377	1,441	36.4	1.3	5.5	4.7
DALBHARA	1,092	1,318	1,182	1,176	5.0	20.7	(10.3)	(0.5)
ICEM	568	890	788	804	10.8	56.7	(11.4)	2.0
JKCE	1,186	1,231	1,282	1,335	45.2	3.8	4.1	4.2
TRCL	991	1,351	1,281	1,344	7.6	36.4	(5.2)	4.9
JKLC	794	808	796	801	95.1	1.7	(1.5)	0.7
ORCMNT	659	904	817	752	35.5	37.1	(9.7)	(7.9)
PRSMJ	889	980	1,049	1,079	6.6	10.2	7.0	2.9
HEIM	1,122	1,154	1,212	1,263	13.7	2.9	5.0	4.2
<b>Weighted average</b>	<b>1,031</b>	<b>1,190</b>	<b>1,192</b>	<b>1,236</b>	<b>24.9</b>	<b>15.5</b>	<b>0.2</b>	<b>3.7</b>

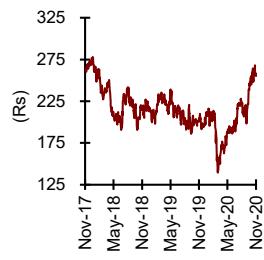
Source: Company data, I-Sec research; \*including other operating income

## Price charts

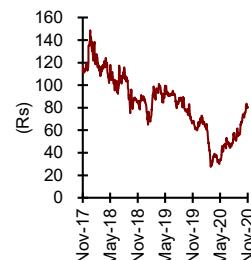
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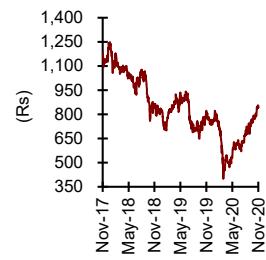
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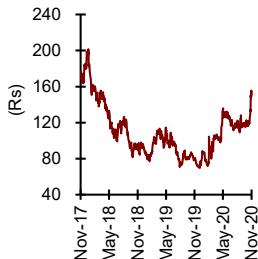
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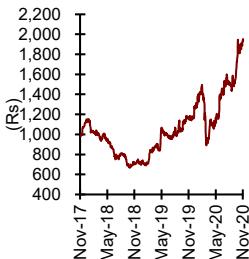
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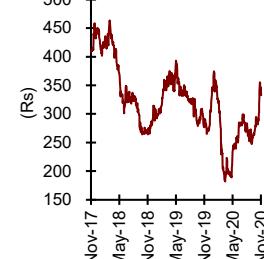
India Cement



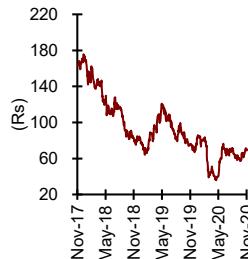
JK Cement



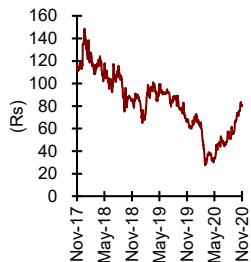
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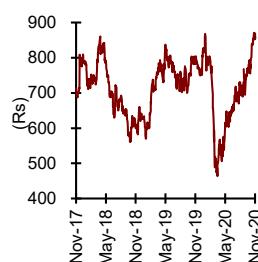
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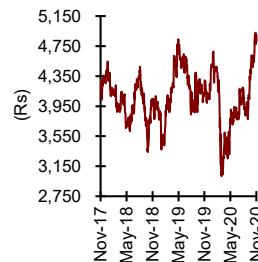
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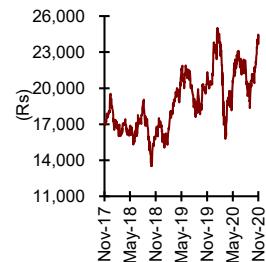
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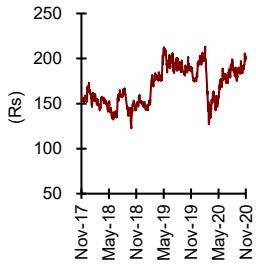
UltraTech Cement



Shree Cement



HeidelbergCement



Source: Bloomberg

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