

10 December 2020

## Cement channel check

Sensex: 46104

Nifty: 13529

*Healthy demand outlook; short-term pricing pressure may arise*

The Competition Commission of India began investigating some cement companies' alleged anti-competition behaviour. Some short-term sentimental impact on stock prices, we believe, is likely. With input prices rising, however, price hikes cannot be ruled out in the long term.

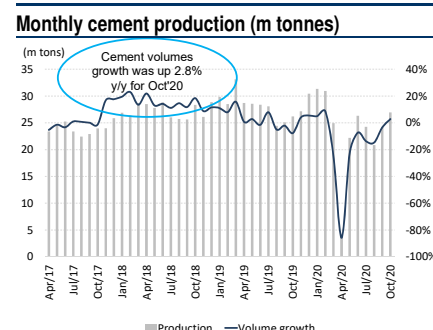
We ran a channel check to gauge the current demand and pricing milieu. After firm demand in Oct, Nov was partially hit by the Diwali holidays and region-specific issues, which dealers said were temporary as infra activity is improving and higher IHB demand is expected. Prices across regions declined Rs5-15 a bag except in the South, where prices were hiked by Rs20-25 a bag in the first week of Dec. Pricing pressure in some regions is likely owing to volumes being pushed by companies which follow the calendar year. We prefer some of the Central region companies (Birla Corp, Heidelberg) and Ramco Cements in the South.

**CCI investigation may restrict price hikes in the short term.** On 9<sup>th</sup> Dec'20 the CCI began investigating some cement companies to examine possible cartelisation, and searched offices. We believe this will restrict significant price hikes in the industry in the near future. Considering rising costs in FY22, however, we do not rule out the possibility of price hikes. An appeal is still pending against a CCI penalty (~Rs63bn) imposed in 2012 on several cement companies for colluding to under-use plants and create artificial cement shortages.

**North and Central.** After good demand here in Sep and Oct, demand in Nov was hit by the Diwali holidays and continued weak in Dec (the wedding season and winter). Dealers, however, expect demand to improve from end-Dec. Demand in Delhi continues to be hit by the high number of Covid-19 cases, pollution and the ongoing farmer protest. Prices were reduced by Rs5-10 in the first week of Dec in the North and Central regions.

**West and East.** Demand here was firm in Oct and Nov. In some cities, however, demand was hit by labour shortages, post-Diwali, the huge number of Covid-19 cases and festivals (Chhath Pooja in Bihar). Dealers expect volumes to rise with some companies which follow the calendar year (ACC/Ambuja) expected to push volumes. This could keep prices squeezed. Prices declined by Rs10-15 a bag in the first week of Dec in the West and East regions.

**South.** Demand here in Nov was weak. Dealers, however, say demand in Bengaluru was curtailed by the heavy monsoon and in Hyderabad by the property-registration issue curbing IHB demand. Also, infra projects are facing a funding issue (Polaveram/Kaleshwaram). In Hyderabad prices rose by Rs20-25 a bag in the first week of Dec; whereas in Bengaluru they held at Nov levels.



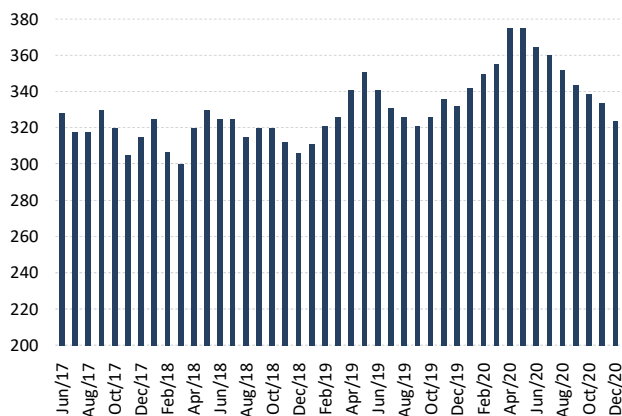
Source: IIP data

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**Fig 1 – Cement prices – West**

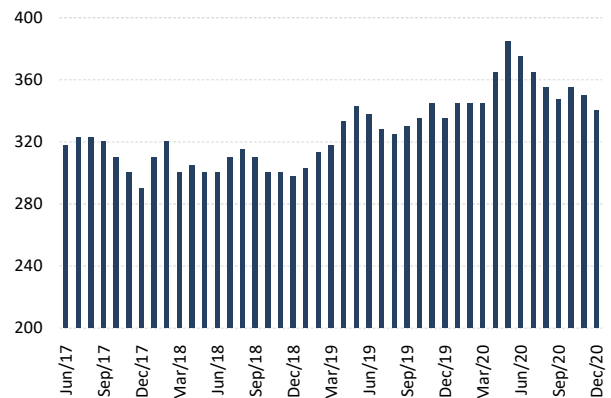
(Rs/bag)



Source: Company, Anand Rathi Research

**Fig 2 – Cement prices – North**

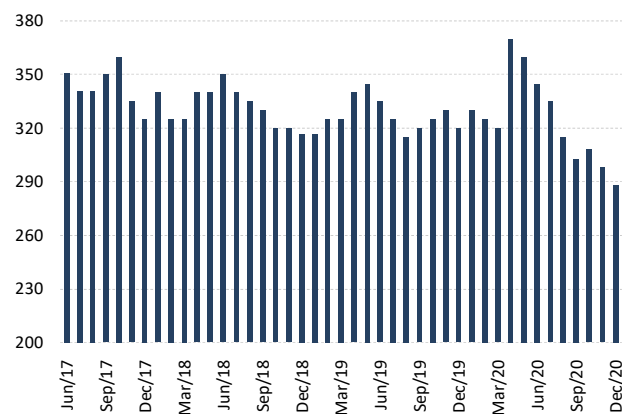
(Rs/bag)



Source: Company, Anand Rathi Research

**Fig 3 – Cement prices – East**

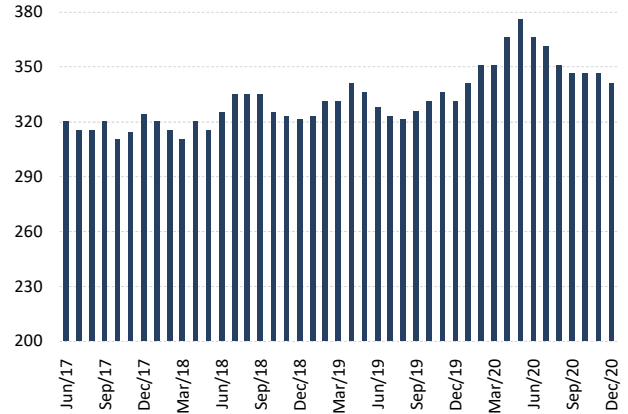
(Rs/bag)



Source: Company, Anand Rathi Research

**Fig 4 – Cement prices – Central**

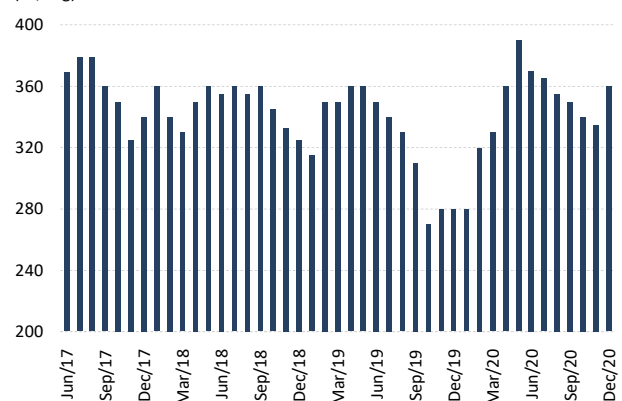
(Rs/bag)



Source: Company, Anand Rathi Research

**Fig 5 – Cement prices – South**

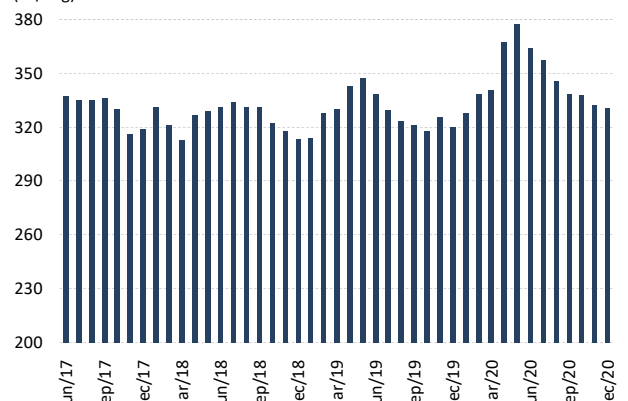
(Rs/bag)



Source: Company, Anand Rathi Research

**Fig 6 – Cement prices – All-India**

(Rs/bag)



Source: Company, Anand Rathi Research

Fig 7 – Cement sector snapshot

	CMP (Rs)	EV / tonne (\$)			EV / EBITDA (x)			P / E (x)			Capacity (tonnes)		
		FY20	FY21e	FY22e	FY20	FY21e	FY22e	FY20	FY21e	FY22e	FY20	FY21e	FY22e
ACC	1,629	107	105	102	10.8	12.2	11.6	22.5	27.8	27.4	33.4	33.4	33.4
Ambuja	247	151	172	158	15.2	16.0	13.5	32.1	33.8	29.5	29.7	29.7	31.5
UltraTech	5,003	192	186	178	18.0	19.3	15.5	25.8	44.3	31.7	112.9	114.9	116.1
Shree	23,807	291	251	251	23.4	25.5	20.3	54.7	72.8	48.6	40.4	46.4	46.4
Dalmia Bharat	1,034	115	104	85	10.8	8.9	8.2	89.1	29.8	30.0	27.3	29.5	34.8
JK Lakshmi	347	62	57	50	7.9	7.0	5.8	17.4	14.2	12.1	11.7	11.7	11.7
Star Cement	94	133	84	86	9.1	10.6	8.4	13.4	19.4	15.0	3.7	5.7	5.7
Ramco	834	164	158	147	21.4	20.6	14.8	32.7	35.1	22.8	18.8	19.8	20.8
India Cement	149	72	68	68	14.0	9.7	8.8	71.7	27.7	21.2	15.6	15.6	15.6
Birla Corp.	753	86	87	70	7.2	7.5	7.2	11.5	13.5	13.0	15.5	15.5	19.6
JK Cement	1,975	158	153	147	14.9	12.9	11.4	26.4	23.6	21.3	15.3	16.0	16.0
Orient Cement	78	48	44	39	7.3	5.9	5.1	18.4	12.3	10.0	8.0	8.0	8.0
Heidelberg	207	98	98	92	9.0	9.7	7.8	17.5	19.4	15.1	6.5	6.5	6.5
Mangalam	223	39	40	36	5.4	5.3	4.3	7.9	8.3	6.8	3.8	3.8	3.8
Deccan	362	30	26	21	6.3	3.0	2.5	7.7	5.5	5.7	2.3	2.3	2.3
Sanghi Industr.	32	69	51	49	10.6	13.6	8.6	12.2	NA	19.7	4.1	6.1	6.1
NCL Industr.	143	49	50	51	4.1	6.8	6.2	12.7	14.7	12.8	2.7	2.7	2.7
Prism	86	41	78	74	6.5	14.9	10.1	64.5	NA	29.9	7.0	7.0	7.0

Source: Bloomberg, Anand Rathi Research

Fig 8 – Stock performance

Absolute price performance (%)					Relative price performance (%) – vs. the Nifty				
	1-month	3-month	6-month	12-month		1-month	3-month	6-month	12-month
Dalmia Bharat	13.9	45.8	83.3	24.8	Dalmia Bharat	7.2	28.1	50.1	11.1
Ramco Cement	(0.3)	19.3	35.3	8.4	Ramco Cement	(7.1)	1.6	2.0	(5.3)
JK Cement	6.3	37.3	69.8	72.5	JK Cement	(0.4)	19.5	36.6	58.8
India Cement	24.2	25.9	12.9	101.9	India Cement	17.5	8.1	(20.3)	88.2
JK Lakshmi	14.6	36.9	40.3	26.7	JK Lakshmi	7.9	19.2	7.0	13.0
Birla Corp	8.0	24.4	38.0	21.2	Birla Corp	1.3	6.7	4.7	7.5
Prism	12.5	62.7	98.7	38.3	Prism	5.8	45.0	65.5	24.6
Orient	17.6	24.9	27.9	10.0	Orient	10.8	7.1	(5.4)	(3.7)
Heidelberg	12.4	16.3	19.5	19.2	Heidelberg	5.7	(1.4)	(13.7)	5.6
Sagar	0.4	52.9	106.1	42.5	Sagar	(6.3)	35.2	72.9	28.8
Star	10.4	10.0	6.0	9.7	Star	3.7	(7.8)	(27.3)	(4.0)
Mangalam	9.7	20.8	24.8	(16.5)	Mangalam	3.0	3.1	(8.5)	(30.2)
Deccan	7.1	31.7	53.2	28.8	Deccan	0.4	14.0	20.0	15.1
Sanghi	7.2	16.8	50.4	(9.7)	Sanghi	0.5	(0.9)	17.1	(23.4)
NCL	1.6	32.3	117.4	72.7	NCL	(5.1)	14.6	84.2	59.0
<b>Not Rated</b>									
ACC	(1.4)	21.8	28.3	13.9	ACC	(8.1)	4.1	(5.0)	0.2
Ambuja	(0.5)	16.8	29.6	27.0	Ambuja	(7.2)	(0.9)	(3.7)	13.3
Ultratech	5.4	27.0	31.2	23.2	Ultratech	(1.3)	9.3	(2.1)	9.5
Shree	4.3	20.9	10.4	18.3	Shree	(2.4)	3.1	(22.9)	4.6
Kesoram Inds	20.5	18.2	64.8	(5.1)	Kesoram Inds	13.8	0.5	31.6	(18.8)
Nifty	6.7	17.7	33.2	13.7	Nifty	0.0	0.0	0.0	0.0

Source: Bloomberg

## Appendix

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