

**Sector update**

**Top picks**

- Shree Cement
- UltraTech Cement

**INDIA**

**Cement**

**Seasonal price hikes likely from mid-January**

Our channel checks suggest industry demand likely grew in low single digit YoY during Dec'20, while average pan-India prices corrected 3-4% MoM (still up 5% YoY) owing to volume push (by calendar year-end companies) and fight for higher market share. Volumes and prices both are likely to be up 5-6% YoY during Q3FY21E, which would drive >25% YoY EBITDA growth. Key trigger to watch out for, would be seasonal price hikes which usually start from mid-Jan'21 as peak construction period sets in and also necessitated this time by cost escalations. We remain optimistic about the imminent price hikes. SRCM and UTCEM remain our top picks. We also like ACEM, JKCE and TRCL.

- ▶ **Industry volumes expected to grow 5-6% YoY during Q3FY21E** to 91mnte (our estimate) with pan-India utilisation at ~75%. While the first half of Dec'20 was weak in terms of demand, it gained momentum during the second half. Overall, North, Central and East are likely to see >10% YoY growth during Q3FY21 while we expect South to post 7-8% YoY decline and West to be broadly flat YoY. Low base of Mar'20 would result in strong mid-teens YoY growth during Q4FY21E. **We continue to factor-in low single-digit decline in industry volumes for FY21E (since Apr'20).**
- ▶ **Average pan-India prices up 5% YoY in Dec'20** led by 18% YoY rise in South and 3-5% YoY increase in West, North and Central regions. Prices corrected sharply in East by Rs15-30/bag MoM and are down 7% YoY to almost 3-year lows. On a MoM basis, prices corrected by 3-4% across most other regions.
- ▶ **Average pan-India prices up 6% YoY during Q3FY21** led by 18% YoY rise in South and 4-6% YoY increase in West, North and Central regions while prices in East are down 4% YoY. On a QoQ basis, average pan-India prices are likely down ~3% QoQ led by 5% QoQ correction in South, West and East, while prices in North and Central regions are almost flat QoQ.
- ▶ **Companies may report strong 25-30% YoY EBITDA growth in H2FY21E** led by 11%/5% YoY volume/realisation growth. Overall costs/te would turn almost flat YoY in H2FY21E owing to various input cost escalations compared to 4-5% YoY decline reported in H1FY21. Key trigger to watch out for, would be seasonal price hikes which usually start from mid-Jan'21 as peak construction period sets in and also necessitated this time by cost escalations. We remain optimistic about these hikes.
- ▶ **Sector outperformance to continue:** Industry average EBITDA/te grew by 25% in FY20, which further increased by 15% in H1FY21 to >Rs1,250/te led by firm prices and lower costs despite weak volumes. With improving volumes and prices, investors are likely to get more convinced about sustainability of the sector's current profitability.

**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	28.3	23.5	20.4	14.6	12.5	10.9	184	169	147
ACC*	BUY	1,830	23.8	18.6	16.3	10.3	8.4	7.5	100	97	94
ACEM*	BUY	300	21.5	18.1	15.5	11.1	9.2	7.7	119	113	107
SRCM	BUY	28,000	39.8	31.0	25.7	20.8	16.4	13.7	245	231	208
DALBHARA	ADD	1,020	90.5	22.6	22.6	8.2	7.7	6.8	107	88	84
TRCL	BUY	960	24.3	21.5	17.1	14.4	11.9	9.8	159	142	136
JKCE	BUY	2,370	24.2	18.6	15.6	12.1	9.8	8.4	119	100	90
ICEM	SELL	100	70.3	21.5	19.5	12.8	9.9	9.1	71	69	68
JKLC	BUY	475	11.3	9.8	8.6	5.7	5.4	5.2	56	59	61
ORCMNT	BUY	93	13.4	10.6	10.2	6.2	5.3	5.9	45	42	48
PRSMJ	ADD	85	41.1	16.8	14.0	9.5	6.6	5.7	106	87	76
HEIM	BUY	230	18.3	14.4	12.4	8.8	7.0	6.1	98	91	88
GRASIM	ADD	875	53.0	14.5	10.6	17.3	8.3	6.6	-	-	-

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

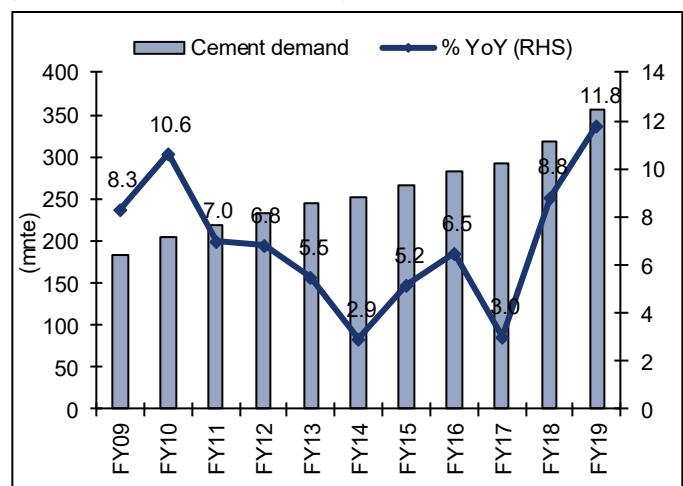
Please refer to important disclosures at the end of this report

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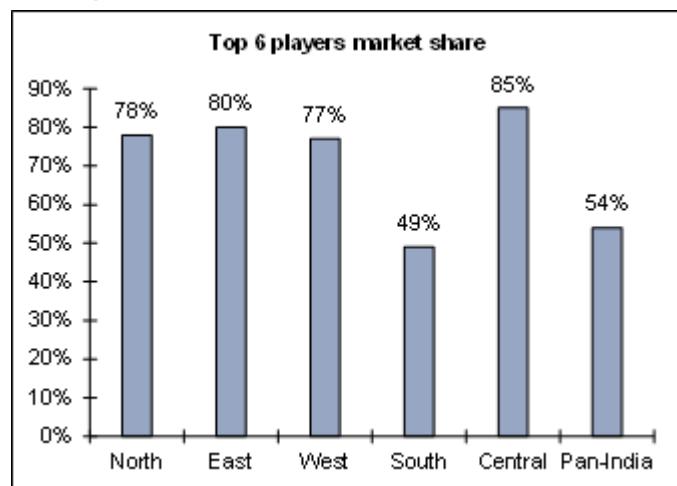
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Demand has grown at ~7% CAGR over past 10 years; to rebound sharply in FY22E



Source: I-Sec research

Increasing industry consolidation to aid firm pricing



Source: I-Sec research

Average pan-India cement utilisation unlikely to decline over FY20-FY22E

Utilisations (%)	FY19	FY20	FY21E	FY22E	FY23E
North	75	78	84	86	88
Central	80	82	82	84	84
East	85	83	84	84	83
West	74	70	65	63	64
South	66	60	53	56	59
<b>All-India</b>	<b>74</b>	<b>72</b>	<b>72</b>	<b>72</b>	<b>74</b>

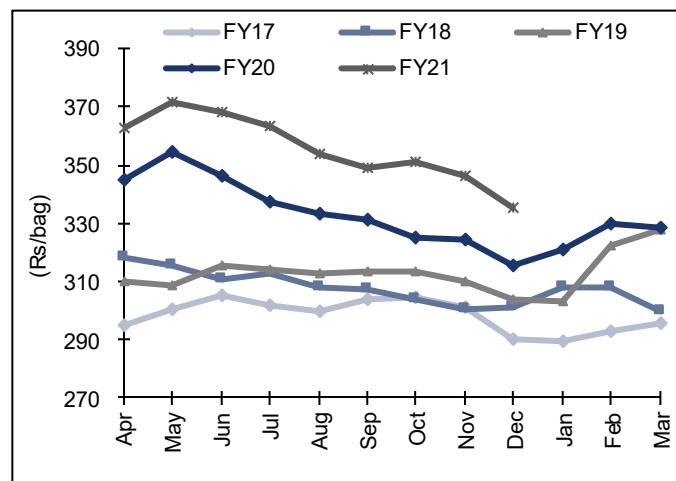
Source: I-Sec research, \*based on effective capacity operational

Clinker utilisation to remain at 77-78% over FY20-FY22E

	FY20	FY21E	FY22E	FY23E
<b>North, Central and East (combined)</b>				
Clinker capacity	159	165	169	177
Clinker utilisation*	83	86	89	91
<b>South and West (combined)</b>				
Clinker capacity	163	169	175	178
Clinker utilisation*	70	63	65	69
<b>All-India</b>				
Clinker capacity	322	334	345	355
<b>Clinker utilisation*</b>	<b>77</b>	<b>77</b>	<b>78</b>	<b>80</b>

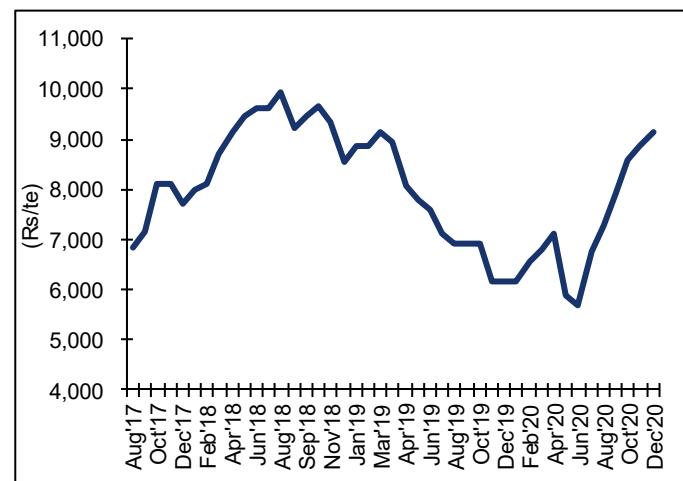
Source: I-Sec research, \*based on effective capacity operational

Average pan-India prices are up 5% YoY in Dec'20



Source: Industry data, I-Sec research

Domestic petcoke prices increased 38% YoY / 21% QoQ in Q3FY21



Source: Industry data, I-Sec research

## Capacity to grow at 4% CAGR over FY20-FY23E; utilisation to improve

60% of new 33mnte clinker and 70mnte cement capacities (including 10mnte likely to be announced) are planned to be added in high-growth markets of East and Central regions over FY20-FY23E and 50% of these capacities are expected towards end of FY23E, which would see ramp-up only from FY24E. Huge divergence in regional growth during FY20-FY21E has resulted in North, Central and East operating at 85% utilisation in FY21E from 80% in FY19, while utilisation in South and West has likely declined from 70% in FY19 to ~60% currently.

**Table 1: North – no major capacity additions**

Company	CoD	FY19	FY20	FY21E	FY22E	FY23E
ACEM	Sep-21				1.8	
JKCE	Dec-19		2.0			
SRCM*	Sep-22				3.0	
UTCEM	Mar-23				2.5	
Wonder	Mar-21			2.0		
<b>Total</b>		<b>-</b>	<b>2.0</b>	<b>2.0</b>	<b>1.8</b>	<b>5.5</b>

Source: I-Sec research, \*yet to be announced-assumed

**Table 3: Central – few capacity additions**

Company	CoD	FY19	FY20	FY21E	FY22E	FY23E
ACC	Dec-22				4.8	
BCORP	Sep-22				1.2	
HEIM	Mar-20		0.9			
JKCE	Feb-20		1.5			
SGC	Dec-21			1.0		
UTCEM	Mar-20		2.0			
UTCEM	Sep-21			3.3		
UTCEM	Apr-18	1.8				
UTCEM	Jun-18	1.8				
UTCEM	Mar-23				1.8	
Wonder	Feb-20		2.5			
<b>Total</b>		<b>3.5</b>	<b>6.9</b>	<b>-</b>	<b>4.3</b>	<b>7.8</b>

Source: I-Sec research, \*yet to be announced-assumed

**Table 4: West – to see entry of new players**

Company	CoD	FY19	FY20	FY21E	FY22E	FY23E
BCORP	Sep-21				3.9	
CENT	Apr-19		1.2			
JKCE	Dec-20			0.7		
JSW	Sep-18	1.2				
JSW	Apr-21				2.3	
Penna	Sep-18	1.0				
SNGI	Dec-20			2.0		
SRCM	Dec-20			2.0		
UTCEM	Mar-23				1.8	
Wonder	Dec-18	2.5				
<b>Total</b>		<b>4.7</b>	<b>1.2</b>	<b>4.7</b>	<b>3.9</b>	<b>4.1</b>

Source: I-Sec research

**Table 2: East – more capacities expected in anticipation of high growth**

Company	CoD	FY19	FY20	FY21E	FY22E	FY23E
ACC	Apr-21					1.1
Emami	Sep-18		1.0			
Emami	Dec-18		2.0			
JKLC	Sep-19			0.8		
JSW	Sep-21					
JSW	Jun-19		1.2			
JSW	Mar-22					1.0
DALBHARA	Dec-20				3.1	
DALBHARA	Apr-21					2.3
DALBHARA	Sep-22					2.5
Nuvoco	Dec-21					1.2
STAR	Dec-20					1.0
TRCL	Sep-19		1.1			
TRCL	Sep-20			0.9		
SGC	Dec-21					1.5
SRCM	Dec-20			1.8		
SRCM	Jun-19		1.5			
SRCM*	Sep-22					6.0
UTCEM	Sep-21					1.2
UTCEM	Apr-22					2.2
UTCEM	Mar-23					6.8
<b>Total</b>		<b>3.0</b>	<b>4.6</b>	<b>6.8</b>	<b>9.5</b>	<b>17.5</b>

Source: I-Sec research, \*yet to be announced-assumed

**Table 5: South – very few capacity additions expected due to low utilisation**

Company	CoD	FY19	FY20	FY21E	FY22E	FY23E
Chettinad	Mar-20				2.5	
KCP	Feb-19		1.7			
My Home	Apr-22					2.0
Penna	Sep-18		2.0			
Penna	Mar-20			2.0		
TRCL	Jun-20				1.1	
TRCL	Sep-21					1.0
TRCL	Mar-21					
SGC	Jun-18		1.3			
SGC	Sep-19			0.5		
SRCM	Dec-18		3.0			
TANCEM	Dec-19			1.0		
<b>Total</b>		<b>8.0</b>	<b>6.0</b>	<b>1.1</b>	<b>1.0</b>	<b>2.0</b>

Source: I-Sec research

**Table 6: Average pan-India cement utilisation unlikely to decline over FY20-FY22E**

Utilisations (%)	FY19	FY20	FY21E	FY22E	FY23E
North	75	78	84	86	88
Central	80	82	82	84	84
East	85	83	84	84	83
West	74	70	65	63	64
South	66	60	53	56	59
<b>All-India</b>	<b>74</b>	<b>72</b>	<b>72</b>	<b>72</b>	<b>74</b>

Source: I-Sec research, based on effective capacity operational

**Table 7: Clinker utilisation to remain at 77-78% over FY20-FY22E**

	FY20	FY21E	FY22E	FY23E
<b>North, Central and East (combined)</b>				
Clinker capacity	159	165	169	177
Clinker utilisation*	83	86	89	91
<b>South and West (combined)</b>				
Clinker capacity	163	169	175	178
Clinker utilisation*	70	63	65	69
<b>All-India</b>				
Clinker capacity	322	334	345	355
<b>Clinker utilisation*</b>	<b>77</b>	<b>77</b>	<b>78</b>	<b>80</b>

Source: I-Sec research, \*based on effective capacity operational

**Average pan-India cement / clinker utilisation is unlikely to fall below current 72% / 77% over the next few years**

**Table 8: North – Utilisation to reach 88% in FY23E**

	FY19	FY20	FY21E	FY22E	FY23E
Installed capacity	103	105	109	109	114
<b>Effective capacity</b>	<b>103</b>	<b>101</b>	<b>99</b>	<b>108</b>	<b>110</b>
YoY chg (%)	4.8	(2.3)	(1.8)	9.1	2.2
Volumes	77	78	83	93	97
<b>Utilisation (%)</b>	<b>75</b>	<b>78</b>	<b>84</b>	<b>86</b>	<b>88</b>
YoY change (%)	5.0	1.0	6.0	11.7	5.0

**Table 9: East – Utilisation to remain >80% despite higher capacity additions**

	FY19	FY20	FY21E	FY22E	FY23E
Installed capacity	88	92	99	108	126
<b>Effective capacity</b>	<b>86</b>	<b>88</b>	<b>90</b>	<b>104</b>	<b>115</b>
YoY chg (%)	6.1	2.9	2.4	15.5	10.2
Volumes	72	73	76	87	95
<b>Utilisation (%)</b>	<b>85</b>	<b>83</b>	<b>84</b>	<b>84</b>	<b>83</b>
YoY change (%)	14.0	1.0	5.0	15.0	9.0

**Table 10: Central – Utilisation to reach 84% in FY22E-FY23E**

	FY19	FY20	FY21E	FY22E	FY23E
Installed capacity	58	65	65	69	77
<b>Effective capacity</b>	<b>57</b>	<b>57</b>	<b>61</b>	<b>67</b>	<b>71</b>
YoY chg (%)	5.6	(0.9)	7.1	9.3	6.3
Volumes	46	46	50	56	59
<b>Utilisation (%)</b>	<b>80</b>	<b>82</b>	<b>82</b>	<b>84</b>	<b>84</b>
YoY change (%)	6.1	1.5	6.9	11.8	6.0

**Table 11: West – Utilisation to remain range-bound over FY21E-FY23E**

	FY19	FY20	FY21E	FY22E	FY23E
Installed capacity	66	67	72	76	80
<b>Effective capacity</b>	<b>63</b>	<b>65</b>	<b>63</b>	<b>74</b>	<b>77</b>
YoY chg (%)	2.8	3.7	(4.1)	17.8	4.2
Volumes	47	45	41	47	49
<b>Utilisation (%)</b>	<b>74</b>	<b>70</b>	<b>65</b>	<b>63</b>	<b>64</b>
YoY change (%)	10.0	(3.0)	(10.0)	14.0	6.0

**Table 12: South – Utilisation to remain <60% by FY23E**

	FY19	FY20	FY21E	FY22E	FY23E
Installed capacity	170	171	177	178	180
<b>Effective capacity</b>	<b>165</b>	<b>166</b>	<b>161</b>	<b>177</b>	<b>180</b>
YoY chg (%)	2.7	0.5	(2.8)	10.2	1.4
Volumes	109	99	85	99	107
<b>Utilisation (%)</b>	<b>66</b>	<b>60</b>	<b>53</b>	<b>56</b>	<b>59</b>
YoY change (%)	20.0	(9.0)	(14.0)	16.0	8.0

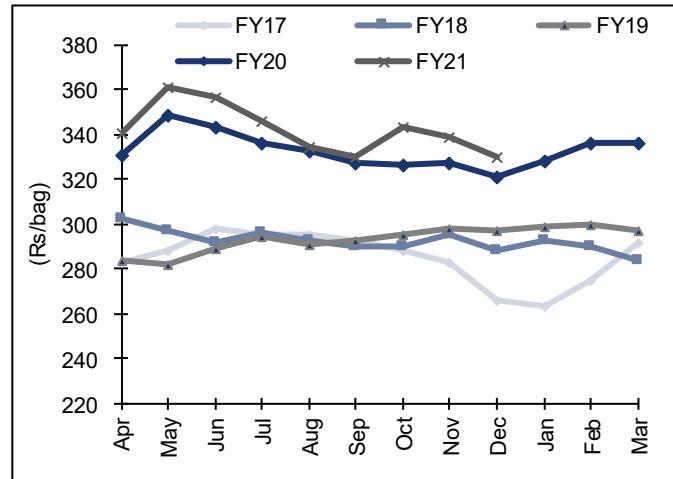
Source: Industry data, I-Sec research

**Table 13: Pan-India – Utilisation to reach ~74% by FY23E**

	FY19	FY20	FY21E	FY22E	FY23E
Installed capacity	484	500	521	540	577
<b>Effective capacity</b>	<b>474</b>	<b>476</b>	<b>474</b>	<b>530</b>	<b>553</b>
YoY chg (%)	4.1	0.6	(0.6)	11.9	4.3
Volumes	352	343	335	382	408
<b>Utilisation (%)</b>	<b>74</b>	<b>72</b>	<b>71</b>	<b>72</b>	<b>74</b>
YoY change (%)	12.0	(2.6)	(2.1)	13.8	7.0

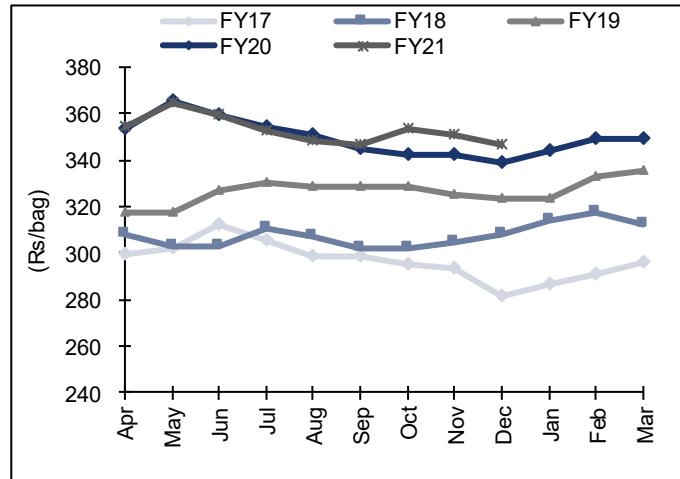
## Cement prices

**Chart 1: North region prices up 3% YoY**



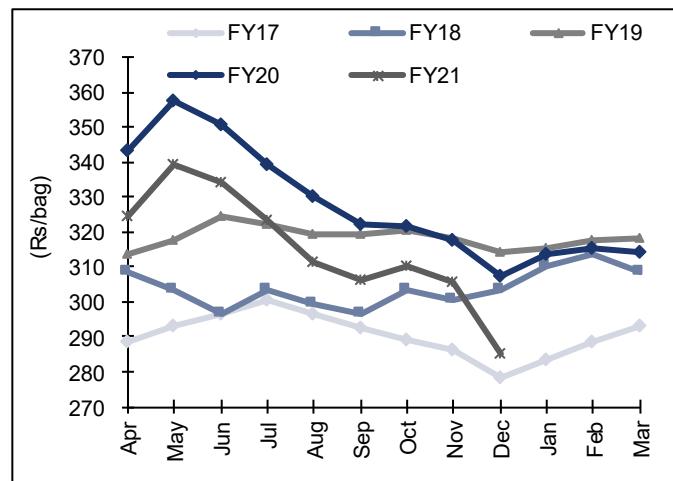
Source: Industry data, I-Sec research

**Chart 2: Central region prices up 2% YoY**



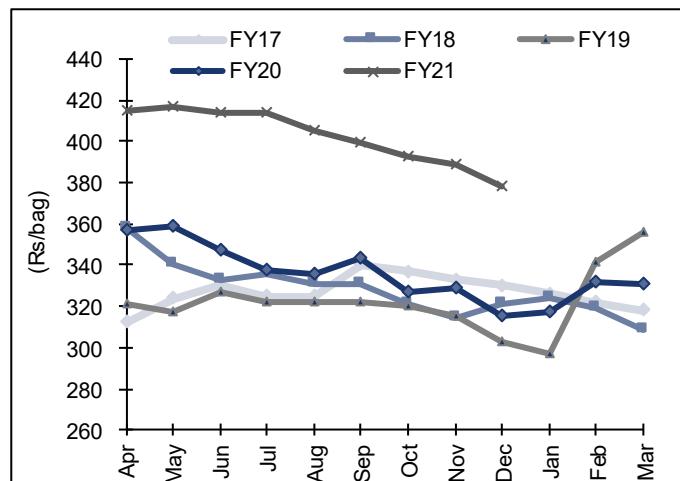
Source: Industry data, I-Sec research

**Chart 3: East region prices declined 7% YoY**



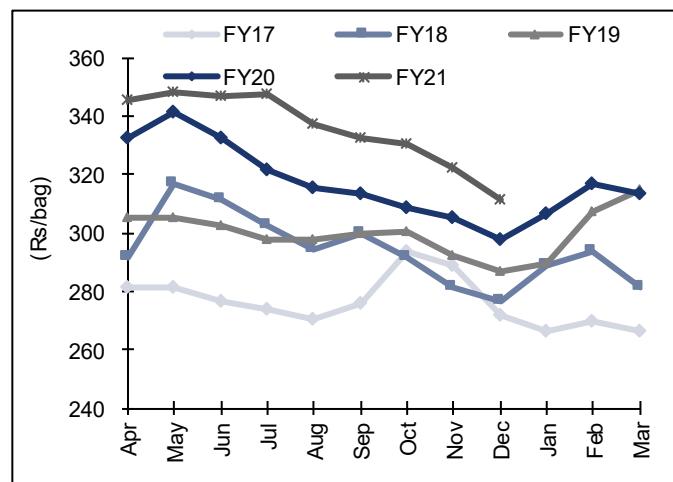
Source: Industry data, I-Sec research

**Chart 4: South region prices increased 18% YoY**



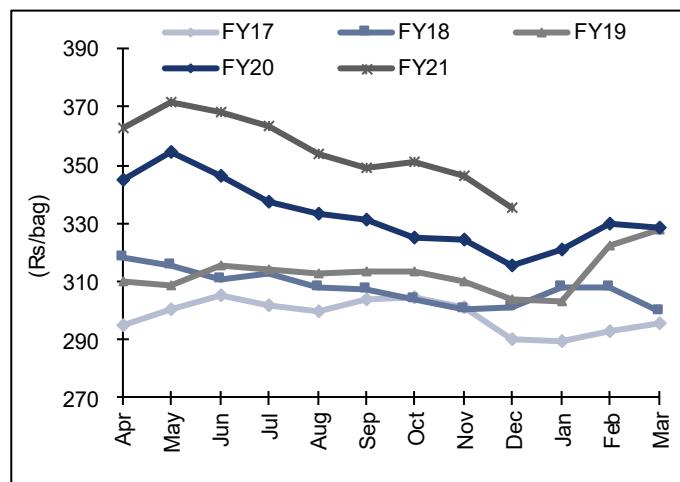
Source: Industry data, I-Sec research

**Chart 5: West region prices up 5% YoY**



Source: Industry data, I-Sec research

**Chart 6: All-India region prices rose 5% YoY**



Source: Industry data, I-Sec research

## Key assumptions

**Table 14: 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 15: 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>

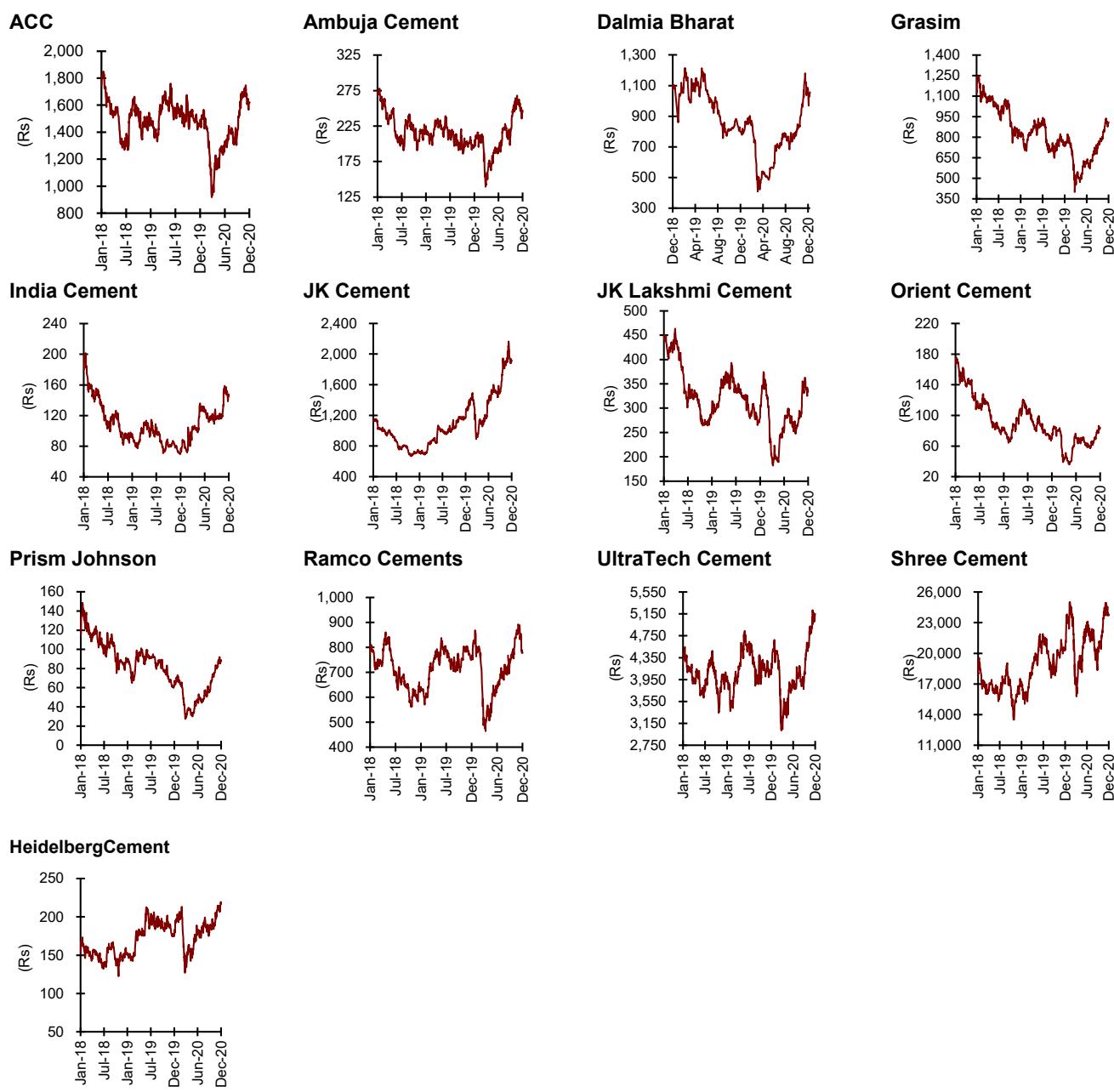
Source: Company data, I-Sec research

**Table 16: 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



Source: Bloomberg

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