

Cement

Cement prices holding up

Summary

Our interaction with cement dealers across India suggests that average cement price at an all India level has been flat MoM in Aug-21. Cement price has remained steady versus our expectation of weakness led by the monsoon. Recall in Q1FY22 average cement price is up 6% QoQ and in Q2FY22 so far all India average cement prices are flat QoQ.

Cost continues to move northward with imported coal price up 9% MoM in Aug-21 and Q2FY22 (till Aug) imported coal prices are up 34% QoQ. Freight cost index is up 2% MoM in July-21. Cement production in India for the month of June-21 has increased by 4.3% YoY at 27.6mt. Low base has led to volume growth. In Q1FY22 industry EBITDA/t has increased QoQ led by ASP increase. But due to cost inflation we expect EBITDA/t to fall QoQ in Q2FY22E.

In the last 1 month, Large and mid cap cement stocks have fallen versus nifty which is up +5% MoM. Large cap stock trades at 15x FY23E EV/EBITDA. We expect no major benefit of YoY increase in the market share and EBITDA margin for industry in FY22. With this cement stocks to be trading bets at different price level. At CMP, we have HOLD rating for ACC and UTCEN and SELL rating for ACEM and SRCM.

Valuation snapshot

Companies	CMP	TP	Mkt Cap	Revenue (Rs mn)		Ebitda (Rs mn)		EPS (Rs)		BVPS (Rs)		PER (x)		P/B (x)		EV/EBITDA (x)		RoE(%)	RoCE(%)	
	(Rs)	(Rs)		Reco	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY23E	FY23E
Ultratech Cement	7,593	7,362	HOLD	21,91,649	4,94,939	5,56,932	1,29,244	1,42,939	230.0	266.5	1707	1913	33.0	28.5	4.4	4.0	18.0	15.9	14.7	15.4
Shree Cement	26,317	25,618	SELL	9,49,519	1,57,697	1,75,866	44,750	47,811	786.7	844.0	4914	5490	33.5	31.2	5.4	4.8	21.3	19.5	16.2	17.4
Ambuja Cement*	409	347	SELL	8,12,625	1,43,233	1,58,839	34,484	37,348	11.9	13.0	110	118	34.3	31.6	3.7	3.5	22.5	20.5	11.4	13.9
ACC*	2,355	2,289	HOLD	4,42,286	1,69,726	1,85,156	29,848	33,262	101.4	115.3	752	842	23.2	20.4	3.1	2.8	12.7	11.0	14.5	18.6

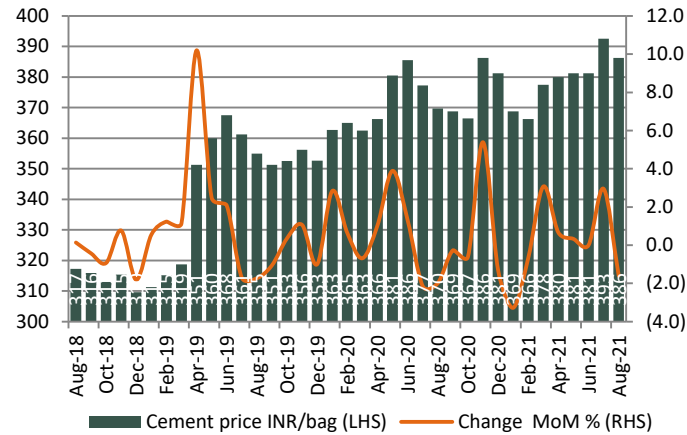
Source: IDBI Capital Research; Note: *Dec Y/E for ACC, Ambuja

Monthly key variables:

- Cement prices:** Our channel check suggests, average cement price at an all India level is flat MoM in Aug-2021. Region wise, price increase is seen in West/East at 1% MoM but price decline is seen in South/North at 2%. And in Central its flat MoM. YTD FY22, average cement price is up 3% YoY at an All India level and for the period region wise East prices is up 6%, South is up 3%, West, North is up 2% and Central is flat MoM.
- Coal cost:** In Aug-21, imported coal price (adj. for currency) is up 9% MoM. Freight index is up 2% MoM in July 2021. Input cost inflation has been steadily increasing in cement for fuel and logistics. YTD FY22 so far average coal prices have increased by 94% YoY and freight index is up 8% YoY in FY22 till date.
- Cement demand:** Cement production in India for the month of June-21 has increased by 4.3% YoY. YTD FY21 volume of industry is up by 45%. Our dealer interaction suggests, volume for industry has been weak due to monsoon but it's inching up steadily.

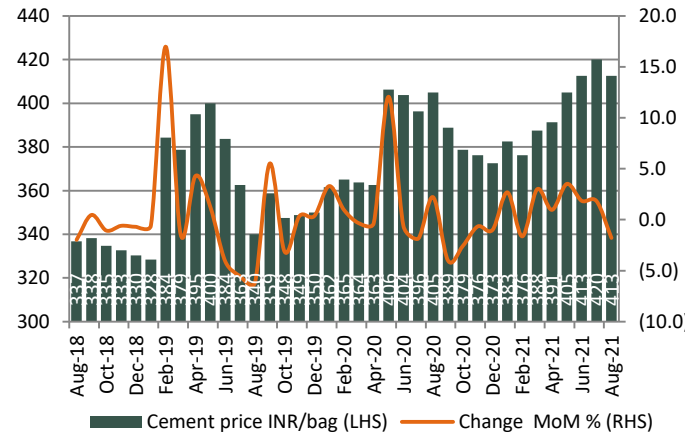
A) PRICES / REALIZATION

Exhibit 1: North Region Aug-21, avg. cement price is down 2% MoM



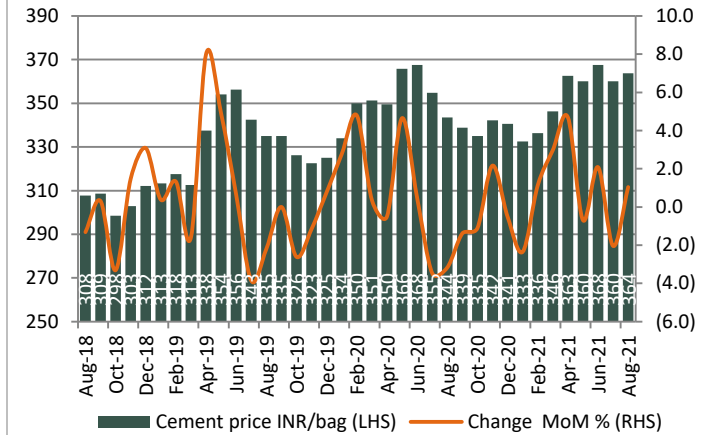
Source: IDBI Capital Research

Exhibit 2: South Region Aug-21, avg. cement price is down 2% MoM



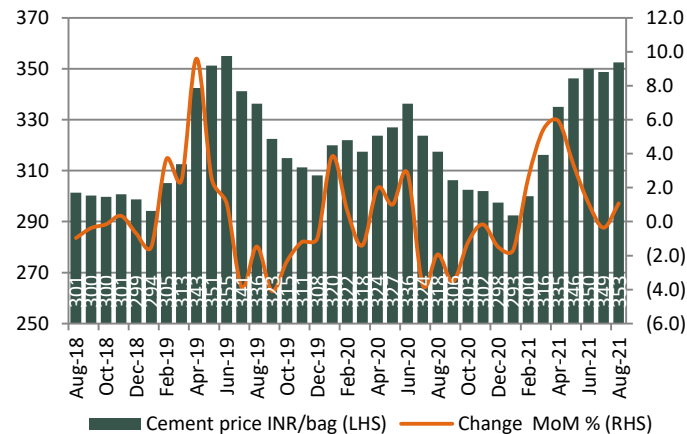
Source: IDBI Capital Research

Exhibit 3: West Region Aug-21, avg. cement price is up 1% MoM



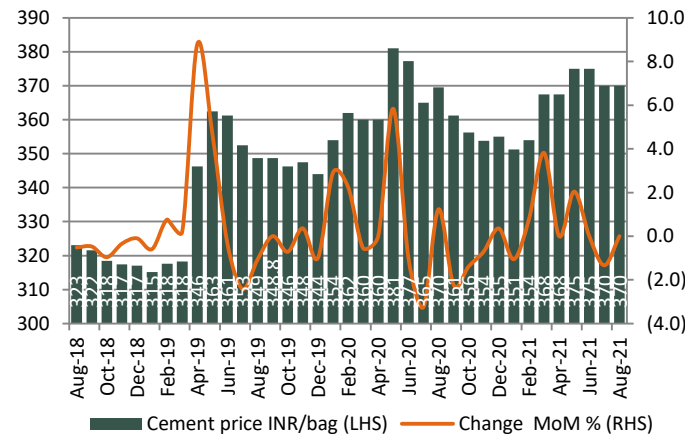
Source: IDBI Capital Research

Exhibit 4: East Region Aug-21, avg cement price is up 1% MoM



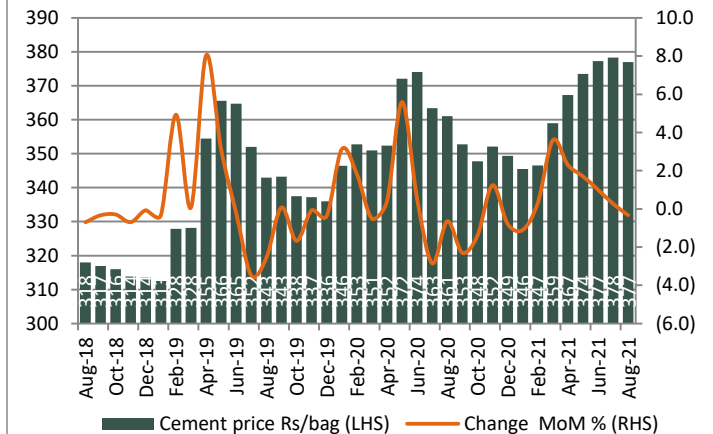
Source: IDBI Capital Research

Exhibit 5: Central Region Aug-21, avg. cement price is flat MoM



Source: IDBI Capital Research

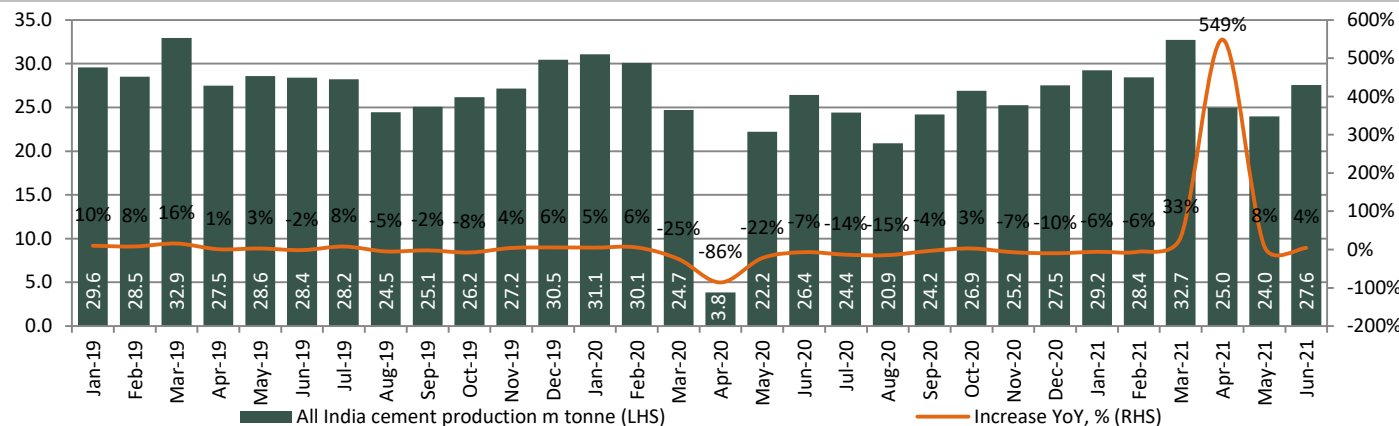
Exhibit 6: All India Aug-21, avg. cement price is largely flat MoM



Source: IDBI Capital Research

B) VOLUME

Exhibit 7: All India cement production is up 4% YoY in June-21



Source: PIB Release

Exhibit 8: All India cement demand and supply matrix, we expect cement volume growth of +10% in FY22E

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Cement Capacity m tonne	216	276	310	328	363	376	402	417	428	468	481	499	513	546	571
Yearly Capacity addition m tonne	18	60	34	18	35	13	26	15	11	40	13	18	14	33	25
Capacity addition growth yoy, %	9.1%	27.8%	12.3%	5.8%	10.7%	3.6%	6.9%	3.7%	2.6%	9.3%	2.8%	3.7%	2.9%	6.3%	4.6%
Cement Demand m tonne	178	203	214	230	243	249	257	269	276	297	334	332	292	321	360
Yearly demand m tonne	14	25	11	16	13	6	8	12	7	21	37	-2	-40	29	39
Demand growth yoy, %	8.5%	14.0%	5.4%	7.5%	5.7%	2.5%	3.2%	4.7%	2.6%	7.6%	12.5%	-0.6%	-12.0%	10.0%	12.0%
All India Cement Utilization	82%	74%	69%	70%	67%	66%	64%	65%	64%	63%	69%	67%	57%	59%	63%
- North							69%	69%	68%	69%	78%	75%	64%	70%	75%
- West							76%	77%	74%	70%	71%	67%	53%	51%	55%
- South							57%	56%	56%	54%	59%	54%	46%	47%	48%
- East							68%	65%	61%	61%	67%	67%	55%	59%	65%
- Central							74%	76%	78%	76%	82%	80%	70%	72%	73%

Source: IDBI Capital Research. Industry

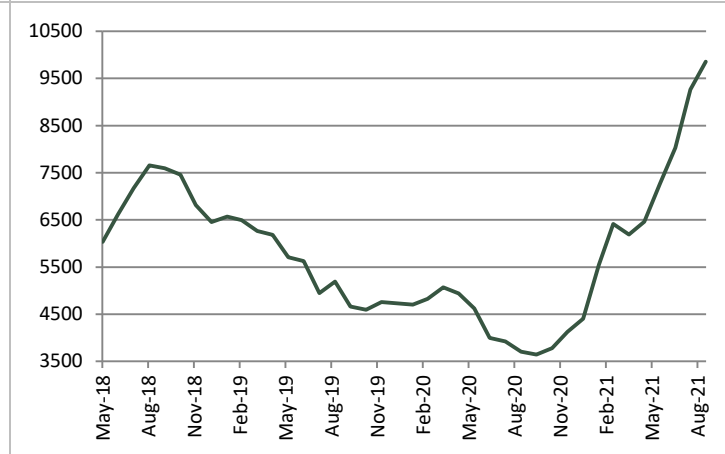
C) COSTS

Exhibit 9: Avg. imported coal price in Aug-21 is up 7% MoM (USD/t)



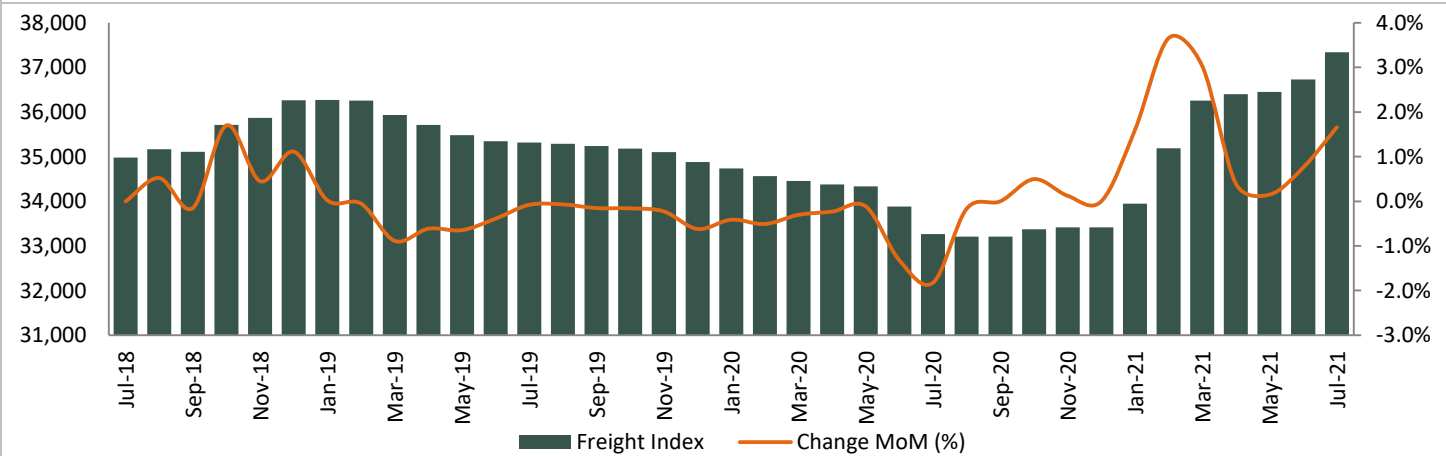
Source: Bloomberg, Kcal 6000

Exhibit 10: Adjusted for currency, imported coal price is up 9% MoM in Aug-21 (Rs/t)



Source: Bloomberg

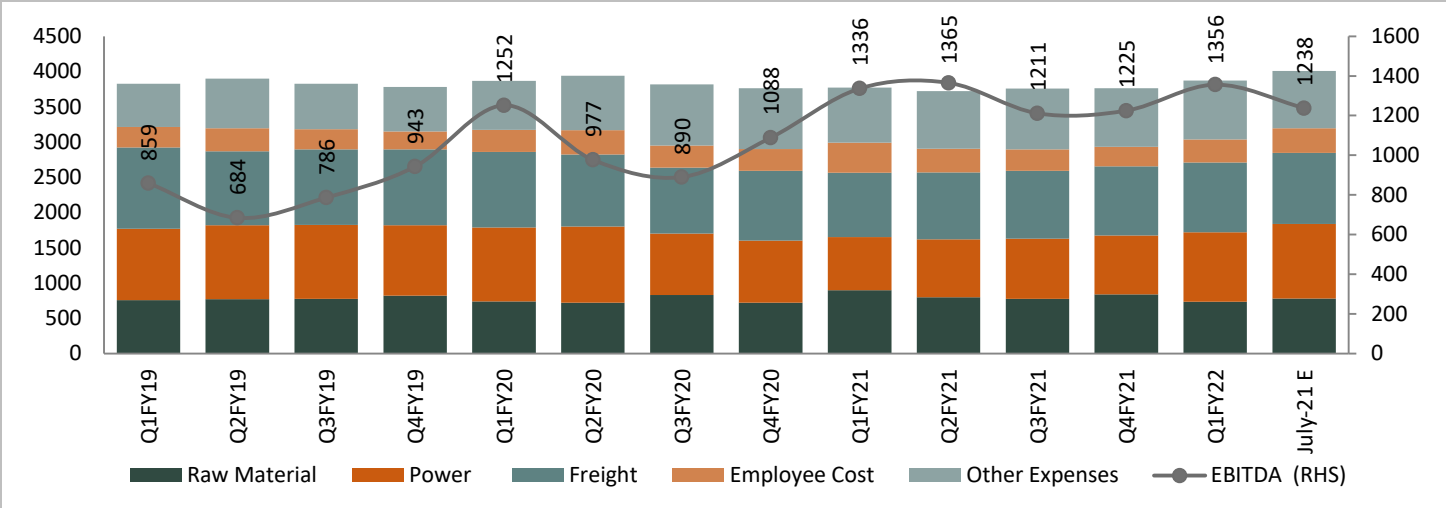
Exhibit 11: Freight cost Index in July-21 is up 2% MoM and in Q1FY22 it is up 4% QoQ



Source: Bloomberg

D) EBITDA/t

Exhibit 12: Industry EBITDA/t could be lower by 9% in July 21 vs Q1FY22 (Rs/t)



Source: IDBI Capital Research

E) Market Share

Exhibit 13: Market Share by sales volume of top 14 players at 81% as on Q1FY22

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Shree Cement	8%	7%	7%	8%	7%	7%	7%	8%	9%	9%	9%	9%	9%
ACC	9%	8%	9%	8%	9%	8%	9%	8%	9%	9%	10%	9%	9%
Ambuja Cement	8%	7%	7%	7%	7%	7%	8%	7%	8%	8%	9%	8%	8%
Ultratech Cement	21%	23%	25%	27%	24%	23%	24%	24%	28%	28%	29%	29%	28%
Dalmia Bharat	5%	5%	5%	6%	5%	6%	6%	6%	7%	7%	7%	7%	6%
Ramco	3%	3%	3%	4%	3%	4%	3%	3%	4%	3%	3%	4%	3%
Sagar Cements	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Heidelberg Cement	2%	1%	2%	1%	1%	1%	1%	1%	2%	2%	2%	1%	2%
JK Lakshmi	3%	3%	3%	3%	3%	3%	3%	3%	4%	3%	3%	3%	3%
Birla Corp.	4%	4%	4%	4%	4%	4%	4%	4%	5%	5%	4%	5%	4%
Orient Cement	2%	2%	2%	2%	2%	2%	2%	2%	2%	1%	2%	2%	2%
JK Cement	3%	3%	3%	3%	3%	3%	3%	3%	3%	4%	4%	4%	4%
Star Cement	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Mangalam Cement	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Combined market share of top 14 players	70%	70%	73%	77%	71%	70%	74%	71%	83%	83%	85%	85%	81%

Source: IDBI Capital Research

F) STOCK PERFORMANCE

Exhibit 14: Stock performance in cement sector

	Performance (%)					Relative to Index (%)				
	1M	6M	12M	3 Year	5 Year	1M	6M	12M	3 Year	5 Year
ULTRATECH CEMENT	1	20	80	73	90	-5	11	35	31	0
ACC Ltd	0	32	62	40	36	-6	22	17	-2	-54
AMBUJA CEMENT	-3	43	75	66	42	-8	33	29	24	-47
SHREE CEMENT	-7	-6	18	42	53	-13	-15	-28	-1	-37
DALMIA BHARAT LT	-10	33	156	NA	NA	-15	24	110	NA	NA
RAMCO CEMENT	-13	0	33	41	70	-18	-10	-12	-2	-20
HEIDELBERGCEMENT	-4	12	33	61	85	-9	2	-12	19	-5
BIRLA CORP	-7	51	121	66	95	-13	41	76	24	5
STAR CEMENT LTD	1	20	26	2	NA	-4	10	-19	-41	NA
JK CEMENTS LTD	-1	20	104	292	294	-6	10	59	250	204
JK LAKSHMI CEMEN	-1	84	153	109	58	-6	75	108	66	-31
SAGAR CEMENTS	27	114	200	96	131	22	104	154	54	41
PRISM JOHNSON LT	-12	16	142	13	13	-17	6	97	-29	-76
MANGALAM CEMENT	8	74	130	89	33	3	64	85	47	-57
DECCAN CEMENTS	0	75	149	75	56	-5	66	103	32	-34
ORIENT CEMENT LT	1	66	114	31	-9	-4	57	68	-11	-99
INDIA CEMENTS	-14	2	46	40	28	-19	-8	1	-2	-62
SANGHI INDUS LTD	10	74	133	-18	-14	5	65	87	-61	-104
CEMENT SECTOR										
- Large Cap, Mkt cap > Rs200bn	-3	18	64	83	89	-8	8	19	40	-1
- Mid Cap, Mkt cap Rs50bn - Rs200bn	-7	32	94	56	54	-13	23	49	13	-36
- Small Cap, Mkt Cap < Rs50b	8	57	91	28	95	2	47	46	-15	5
Nifty 50	5	10	45	42	90	0	0	0	0	0

Source: Bloomberg



Notes

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