

Cement

Monthly Ground Check

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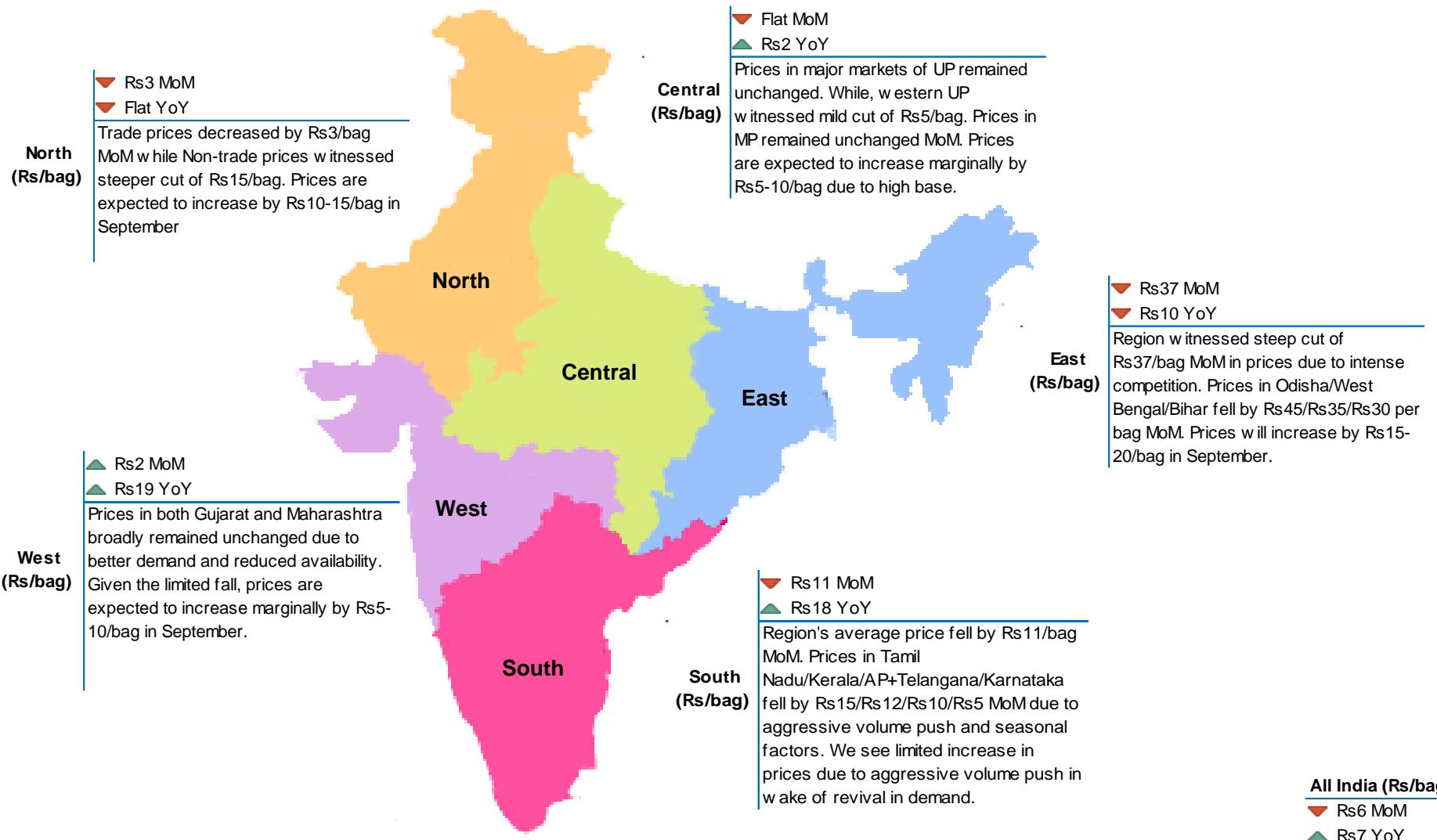
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Region-wise price tracker



Demand growth accelerates; Prices see measured fall except East region

- Demand growth picks up the pace in August:** Based on our channel checks, All-India cement demand is expected to have grown by 18% YoY (flat MoM) in August on a base of 2% decline. Among regions, North stands out with growth expected at 15% on a base of +5% growth, while volumes in Central and East region are expected to be subdued with a marginal increase of 1% and 2% respectively due to high base and muted demand. Western region's demand is expected to grow 70% YoY on a weak base of 20% decline, while South region failed to exploit the benefit of low base due to continued lockdowns. Volumes in the region are expected to grow 20% on a base of 15% decline.
- Weakness in prices more pronounced in East region:** Based on our estimates, All-India prices (net of taxes) declined by Rs7/bag MoM in August. Majority of the fall was contributed by steep decline of Rs20/bag in East. While, rest of the regions witnessed decline of Rs4-5/bag. We expect price hike of Rs10-15/bag in mid/end of September, driven by seasonal pick up in demand and significant increase in costs.
- Reiterate Ambuja (ACEM) and Ultratech (UTCEM) as top picks:** Amidst severe cost pressures and rising competitive intensity, we prefer large caps, ACEM and UTCEM, given their 1) diversified presence, 2) ample levers for cost reduction (WHR, strong logistics network) and 3) high share of trade volumes. We believe that **UTCEM** stands out as best play in the sector, led by its dominant size (22% market share) and highly efficient operations. In spite of sharp run-up, we remain positive on ACEM given the aggressive execution on cost reduction, pick up in pace of capacity addition and continued valuation re-rating.

Region-wise monthly exit and average wholesale prices in Aug'21

Region	Exit Price (Rs/bag)			Average Price (Rs/bag)		
	Aug-21	Jul-21	Change	Aug-21	Jul-21	Change
North	352	354	-3	352	358	-6
South	378	389	-11	384	397	-13
West	359	357	2	358	357	1
Central	337	337	-0	337	339	-3
East	290	327	-37	303	331	-28
All-India	348	355	-6	347	356	-10

Source: *Industry, PL*

Rating and Target Price (TP) with assigned valuation

Company Name	Rating	TP	EV/EBITDA (x) CY22E/FY23E
ACC	BUY	2,460	12.5
Ambuja Cement	BUY	460	14.5
Dalmia Bharat	Accumulate	2,300	12.0
Heidelberg Cement	Reduce	225	7.5
JK Lakshmi Cement	Hold	690	7.5
Shree Cement	Hold	28,400	17.5
The Ramco Cements	Reduce	980	14.0
Ultratech Cement	BUY	8,600	17.0

Source: *Company, PL*

Valuation and Recommendation

Key Financials

Company Name	Revenue (Rs bn)			EBITDA (Rs bn)			PAT (Rs bn)			Realisation (Rs/t)			EBITDA (Rs/t)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC	135	162	173	22	30	31	16	22	23	4,958	5,156	5,360	856	1,072	1,078
Ambuja Cement	245	303	335	50	70	77	24	32	36	4,929	5,127	5,332	1,081	1,291	1,352
Dalmia Bharat	105	129	152	28	31	36	10	11	14	4,842	5,247	5,195	1,343	1,289	1,276
Heidelberg Cement	21	23	26	5	5	6	3	3	4	4,655	4,748	4,796	1,076	1,066	1,092
JK Lakshmi Cement	44	51	53	8	9	9	4	4	5	4,434	4,656	4,702	799	780	833
Shree Cement	135	162	187	40	44	51	23	26	29	4,639	5,033	5,184	1,447	1,444	1,477
The Ramco Cements	52	60	68	15	16	18	8	8	10	5,201	5,341	5,314	1,472	1,399	1,400
Ultratech Cement	443	523	579	111	128	143	53	70	83	5,167	5,444	5,573	1,266	1,306	1,350

Valuation and Recommendation

Company Name	Rating	Price	TP	M.cap (Rs bn)	P/E (x)			EV/EBITDA (x)			P/B (x)			EV/t (US\$)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC	BUY	2,469	2,460	464	28.6	21.4	20.6	18.5	13.2	12.6	3.7	3.2	2.8	165	156	133
Ambuja Cement	BUY	437	460	868	35.6	27.3	24.3	23.4	15.8	13.7	3.8	3.5	3.1	237	221	206
Dalmia Bharat	Accumulate	2,229	2,300	430	41.9	37.8	29.2	15.1	13.8	11.6	3.3	3.1	2.8	174	162	150
Heidelberg Cement	Reduce	264	225	60	22.9	19.9	17.0	12.1	10.9	9.2	4.0	3.8	3.5	131	128	121
JK Lakshmi Cement	Hold	708	690	83	21.6	19.7	16.8	11.1	9.7	8.0	4.0	3.4	2.9	105	99	91
Shree Cement	Hold	30,441	28,400	1,060	48.3	42.6	37.4	26.5	23.8	20.3	7.1	6.2	5.4	293	270	251
The Ramco Cements	Reduce	1,047	980	247	31.6	29.8	25.9	18.8	17.4	14.9	4.4	3.9	3.4	194	183	179
Ultratech Cement	BUY	7,930	8,600	2,176	43.0	32.9	27.6	21.3	18.2	15.7	5.2	4.6	4.0	273	253	237

Relative valuation

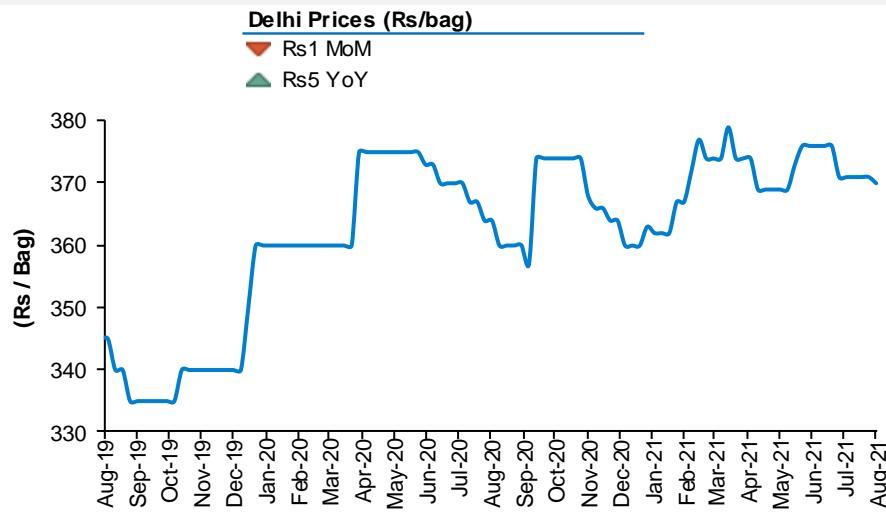
Company Name	Price (Rs/Share)	M.cap (Rs bn)	P/E		EV/EBITDA		P/B		EV/t (US\$)	
			FY22e	FY23e	FY22e	FY23e	FY22e	FY23e	FY22e	FY23e
ACC	2,469	463.6	21.4	20.6	13.2	12.6	3.2	2.8	156	133
Ambuja	437	867.9	27.3	24.3	15.8	13.7	3.5	3.1	221	206
Dalmia Bharat	2,229	429.7	37.8	29.2	13.8	11.6	3.1	2.8	162	150
HeidelbergCement India	264	59.7	19.9	17.0	10.9	9.2	3.8	3.5	128	121
JK Lakshmi	708	83.3	19.7	16.8	9.7	8.0	3.4	2.9	99	91
Shree Cement	30,441	1,060.5	42.6	37.4	23.8	20.3	6.2	5.4	270	251
Ramco Cements	1,047	246.8	29.8	25.9	17.4	14.9	3.9	3.4	183	179
Ultratech	7,930	2,176.3	32.9	27.6	18.2	15.7	4.6	4.0	253	237
JK Cement	3,465	270.4	31.3	26.2	16.6	14.3	6.1	5.1	252	250
Orient Cement	156	33.2	11.1	10.5	11.1	10.5	2.1	1.8	62	65
Birla Corporation	1,335	103.9	18.0	13.9	9.3	7.7	1.7	1.6	110	87
India Cements	180	55.7	18.7	15.0	9.3	8.4	1.1	1.0	70	65
Prism Johnson	130	64.5	27.2	21.7	9.8	8.9	NA	NA	NA	NA
Star Cement	108	44.2	14.3	11.7	9.2	7.7	2.0	1.7	90	86
Sagar Cement	277	32.5	9.3	6.5	9.5	7.3	2.4	2.0	93	61

Source: Bloomberg, PL

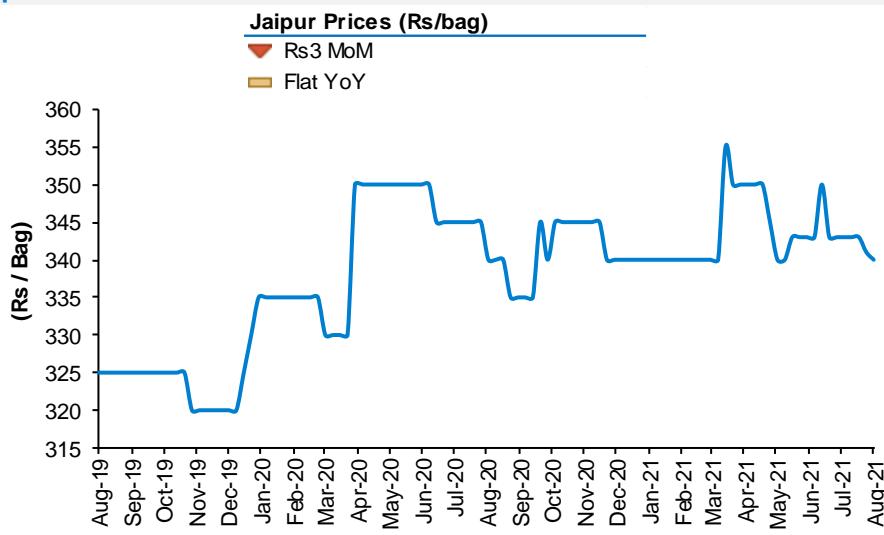
India – City wise Cement pricing trend

North: Region's average fell by Rs5/bag MoM

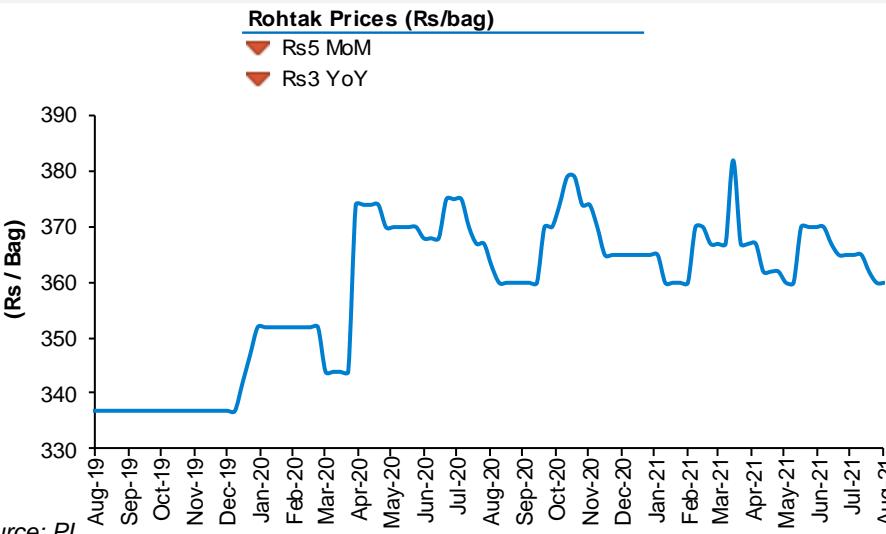
Delhi



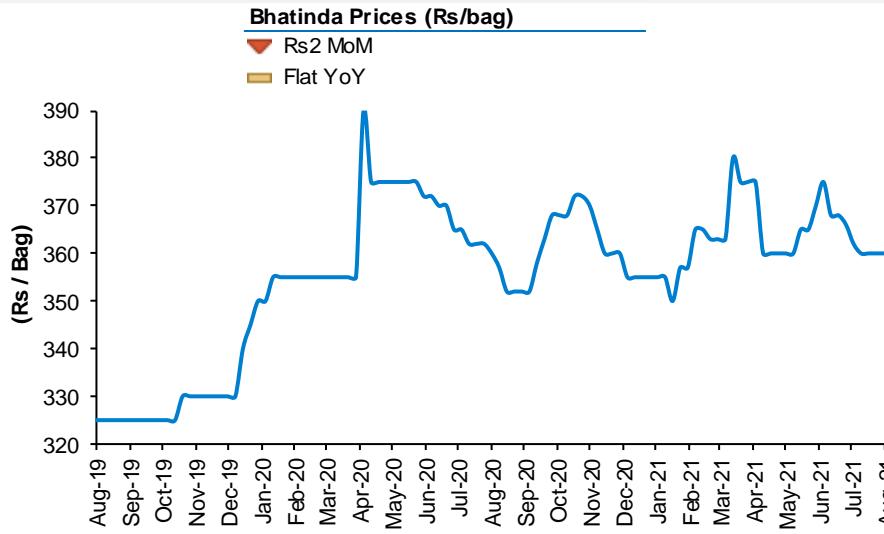
Jaipur



Rohtak



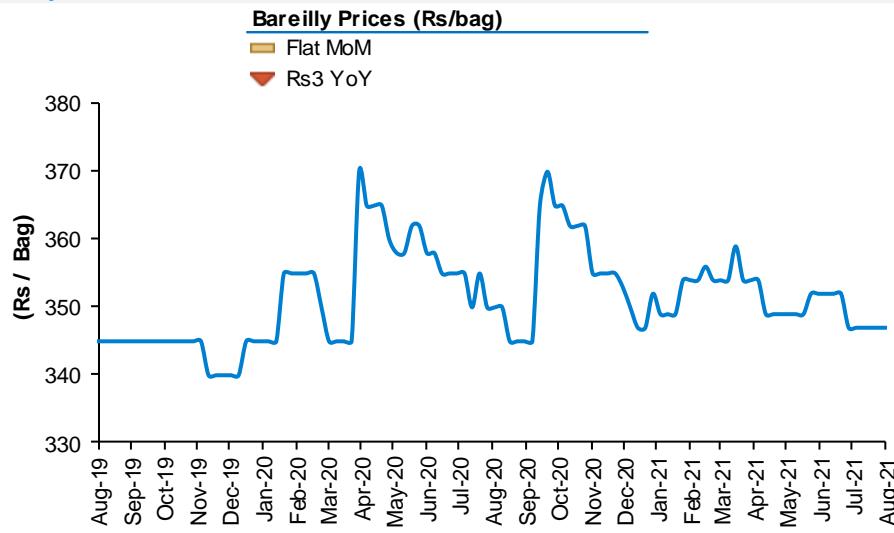
Bhatinda



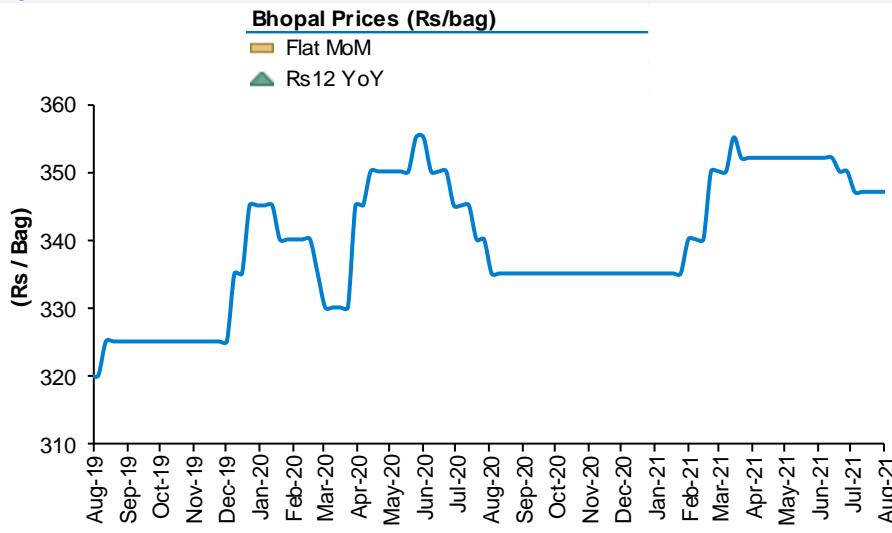
Source: PL

Central: Prices in MP/Western UP fell by Rs3/Rs5/bag; Stable in Central UP

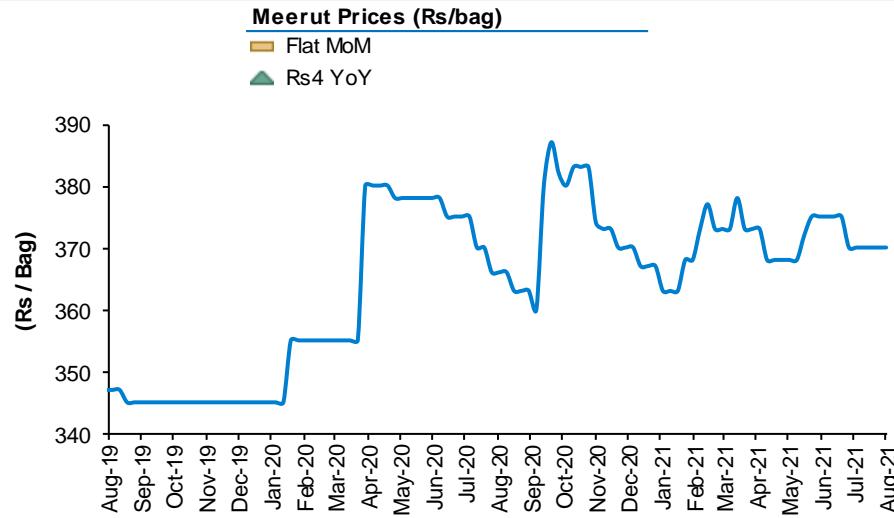
Bareilly



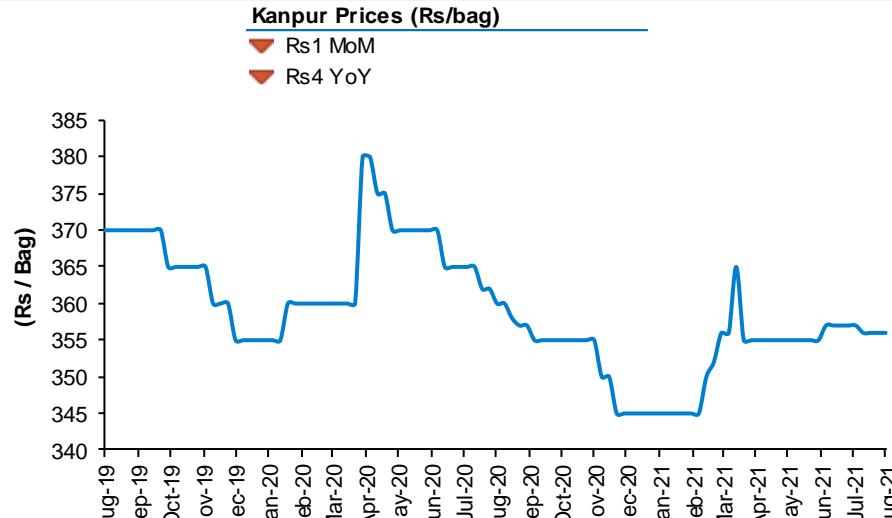
Bhopal



Meerut



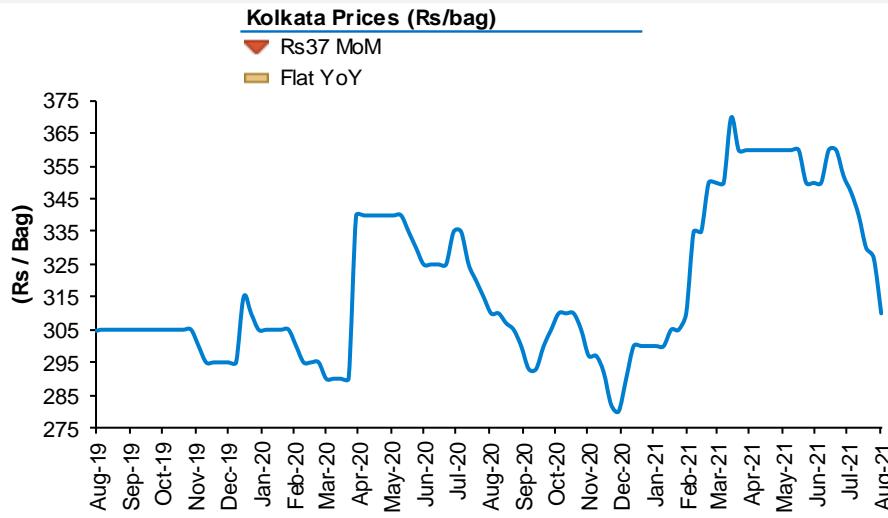
Kanpur



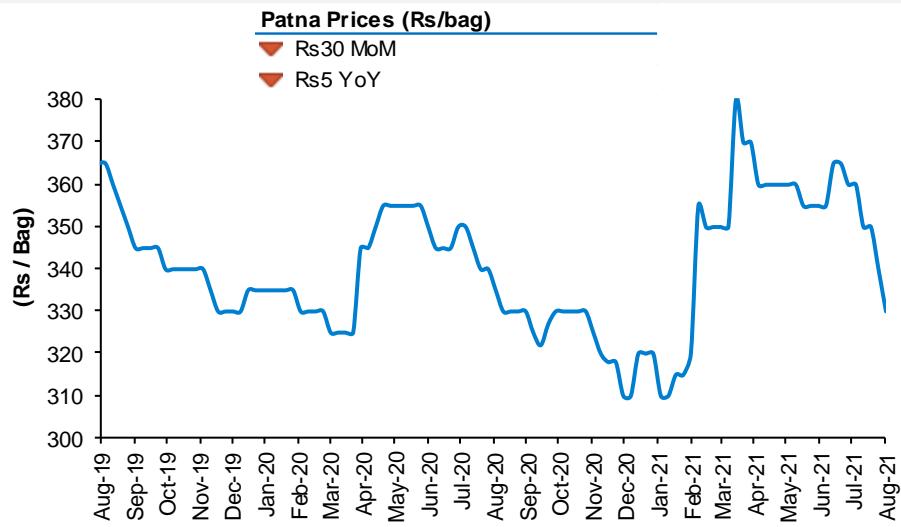
Source: PL

East: Region's average fell by Rs30/bag MoM

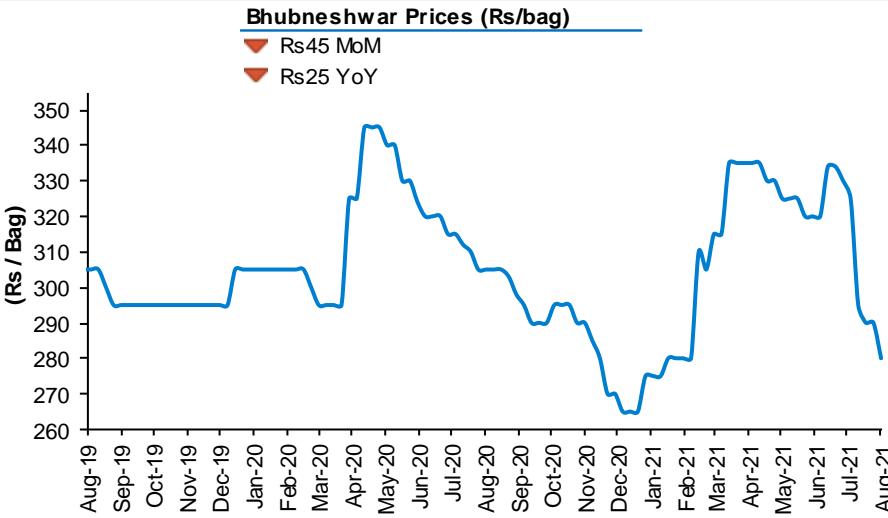
Kolkata



Patna



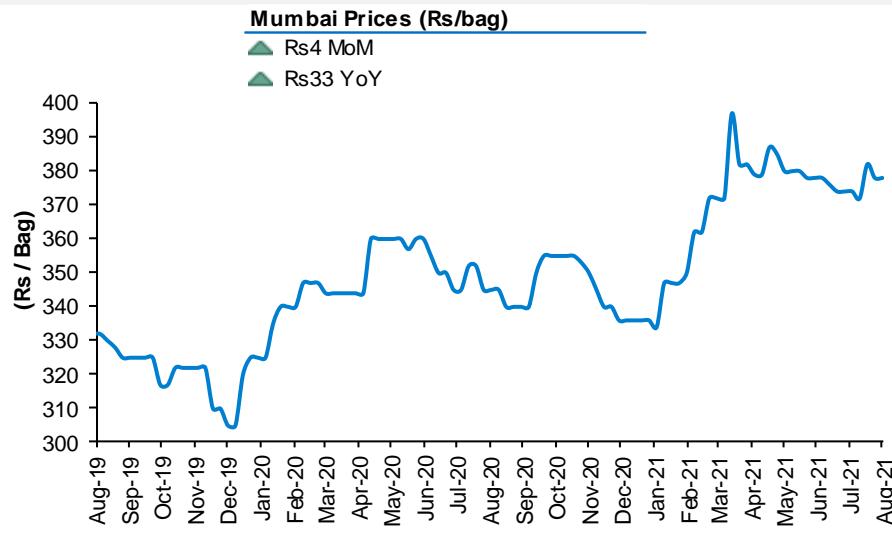
Bhubaneshwar



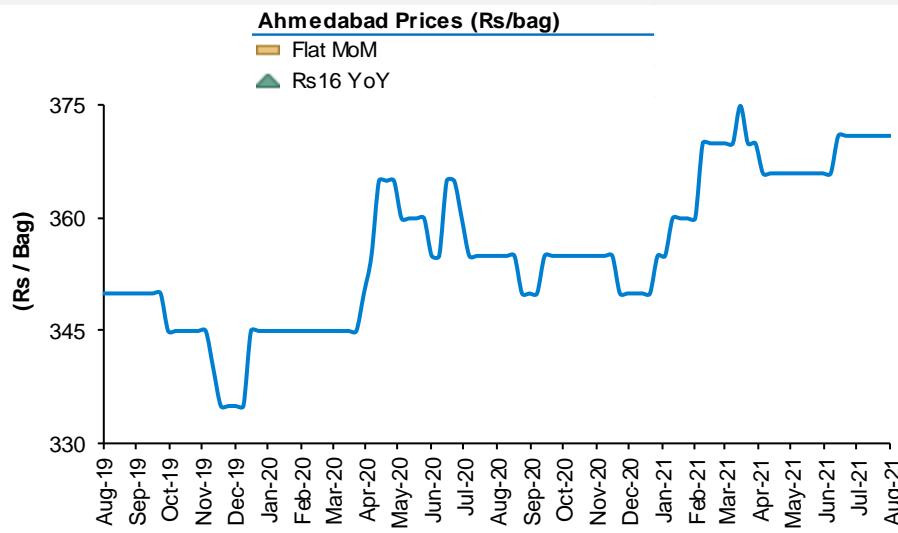
Source: PL

West: Prices unchanged in both the states

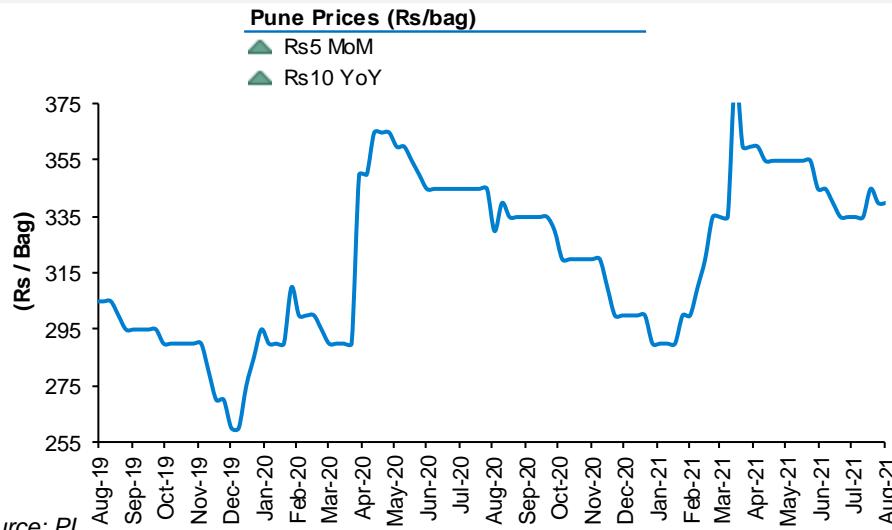
Mumbai



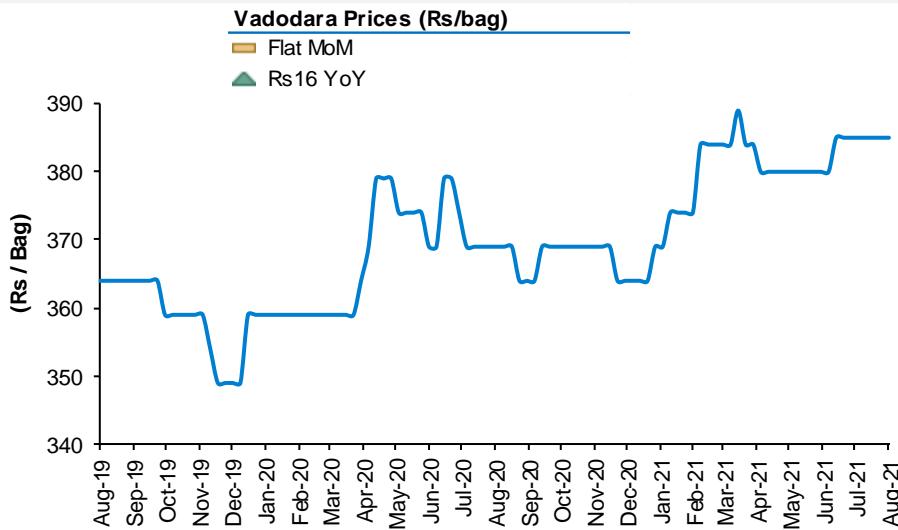
Ahmedabad



Pune

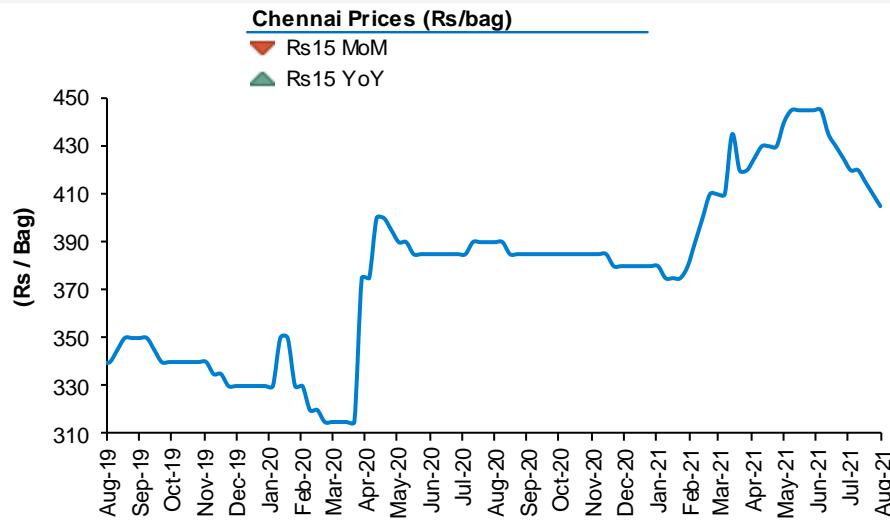


Vadodara

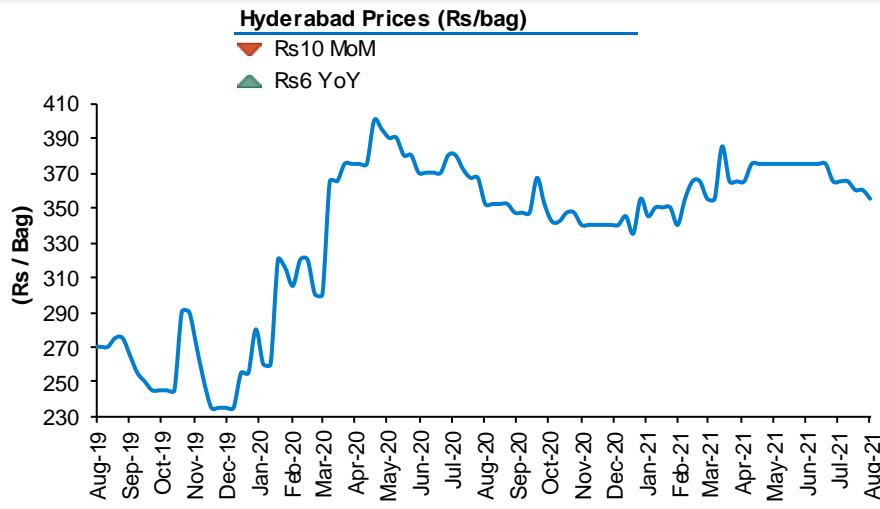


South: Average prices in AP and Karnataka dipped by Rs10 each; TN/Kerala prices down Rs20/Rs15

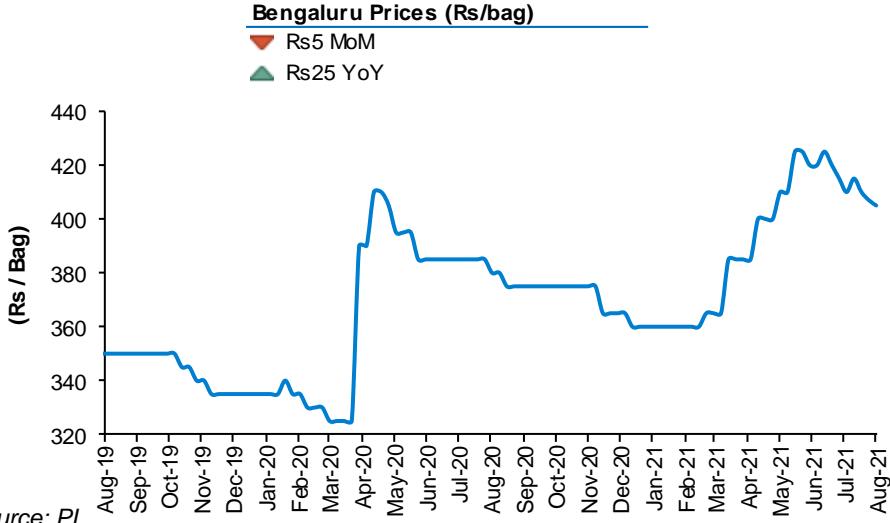
Chennai



Hyderabad

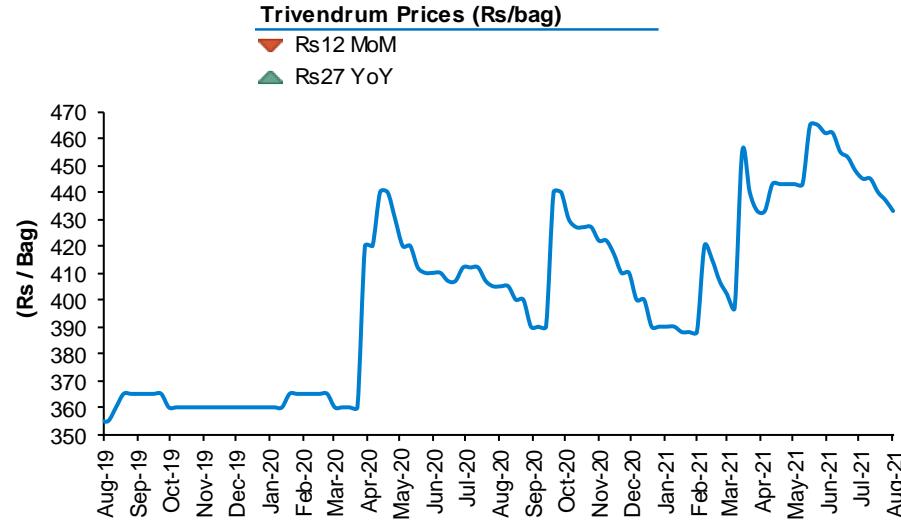


Bengaluru



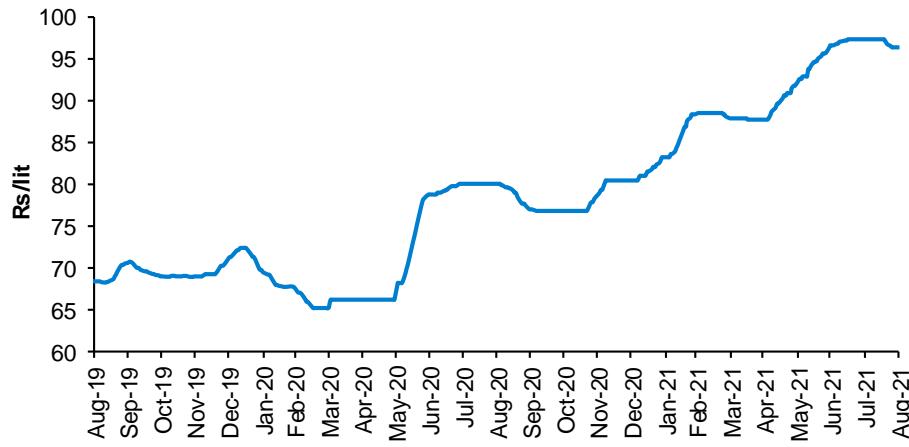
Source: PL

Trivandrum

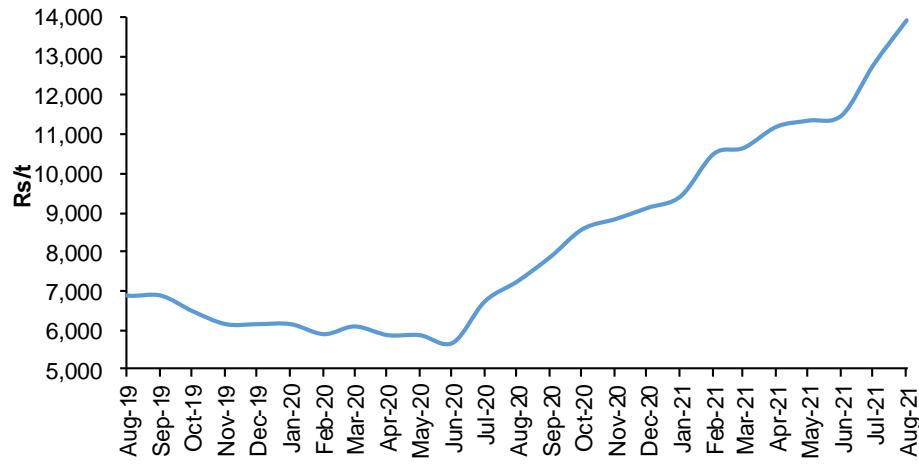


Variable cost (~85% of total cost) up Rs500/t YoY due to higher fuel cost

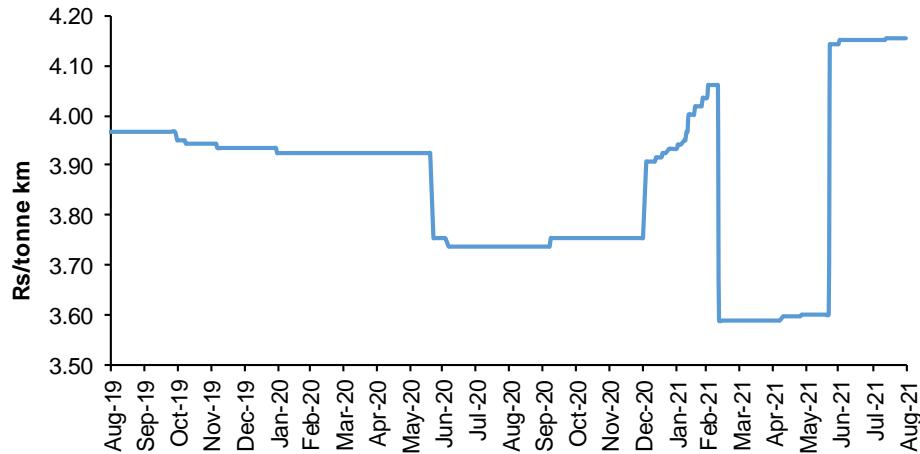
Diesel prices up 20% YoY leading to increase in freight cost by Rs70t



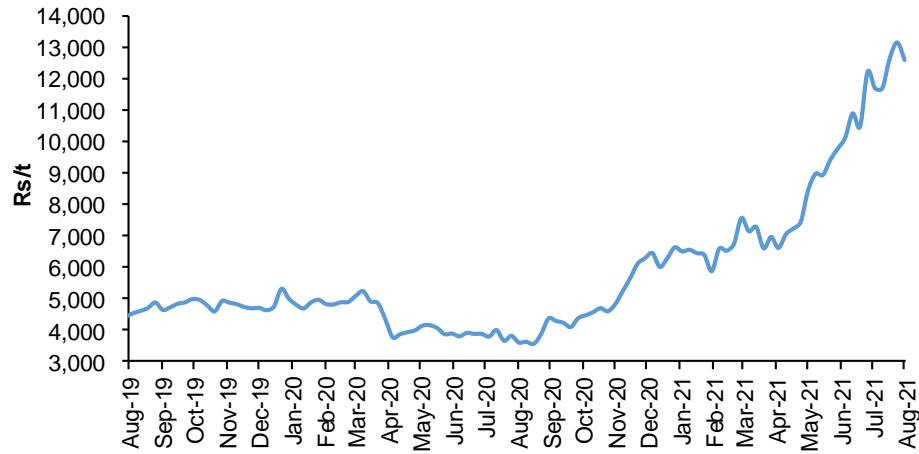
Pet coke prices up 91% YoY resulting in cost push of Rs250/t



Road freight cost stable due to monsoon and lower movement of goods



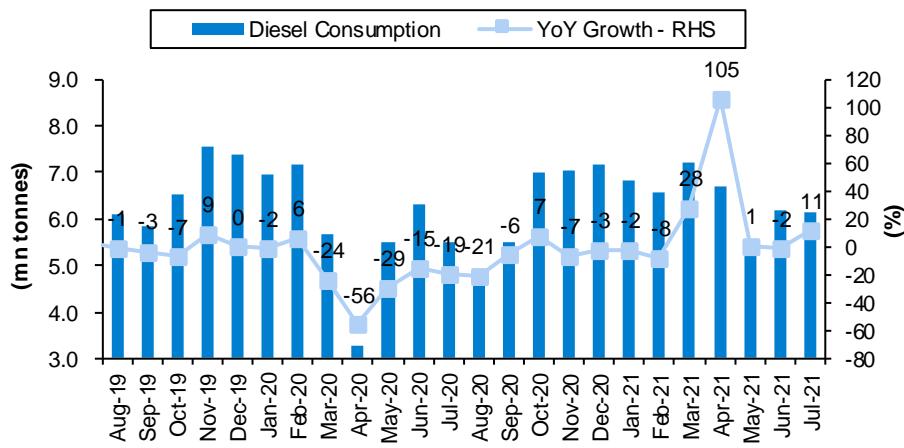
Thermal coal prices up 230% YoY, pushing power cost higher by Rs200/t



Source: Bloomberg, PL

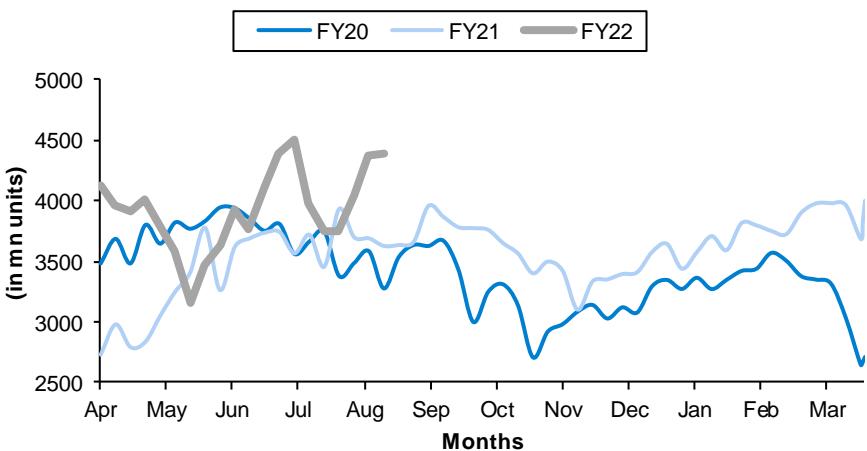
Lead indicators suggest strong pick-up in overall activity

Diesel Consumption inched up despite steep increase in diesel prices



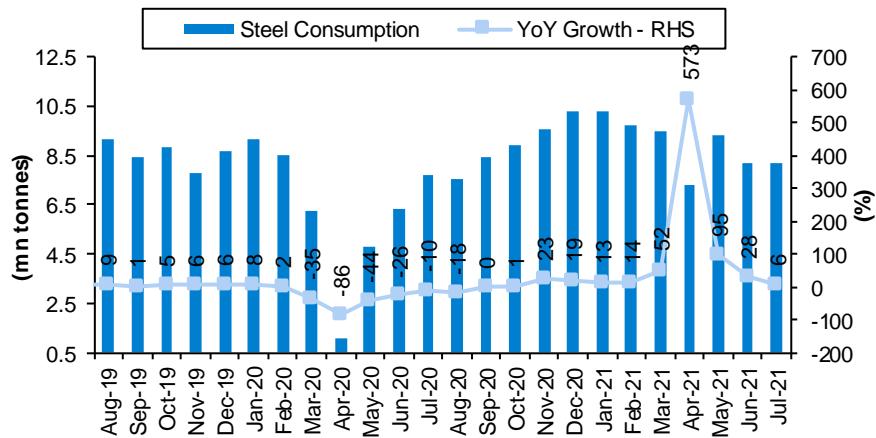
Source: PPAC, PL

Power demand up 21% YoY, led by strong industrial and household demand



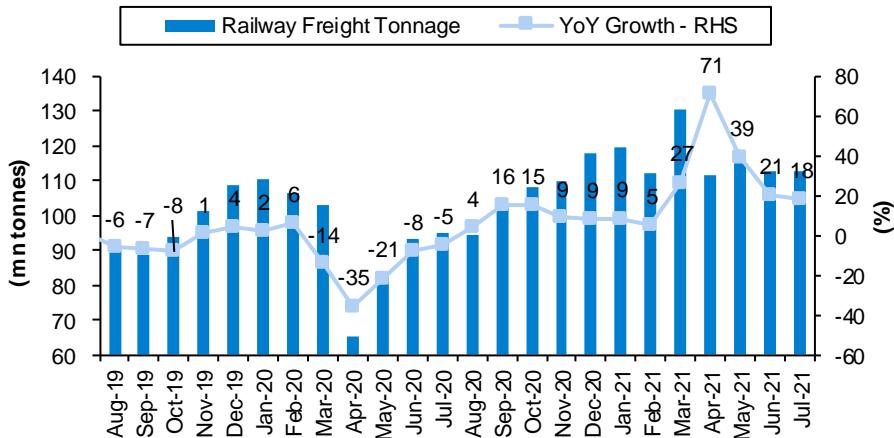
Source: POSOCO, PL

Steel demand growing at 6% despite Auto sector impacted by chip shortage



Source: JPC, PL

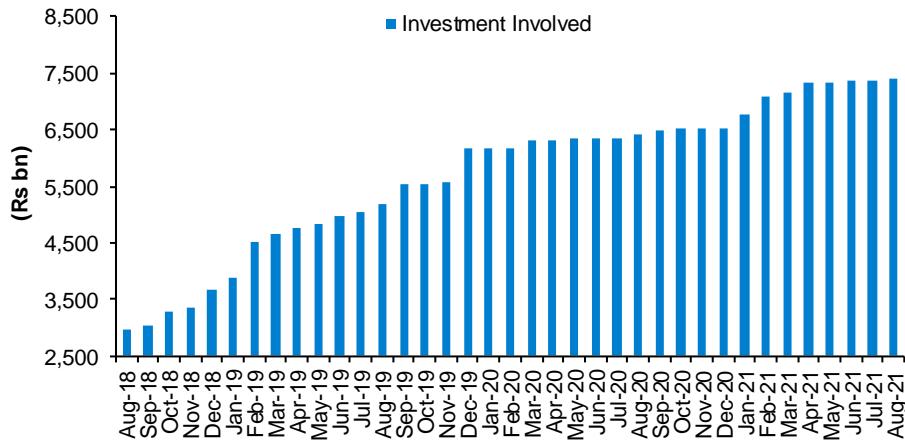
Railway freight tonnage grew sharply, aided by low base and better demand



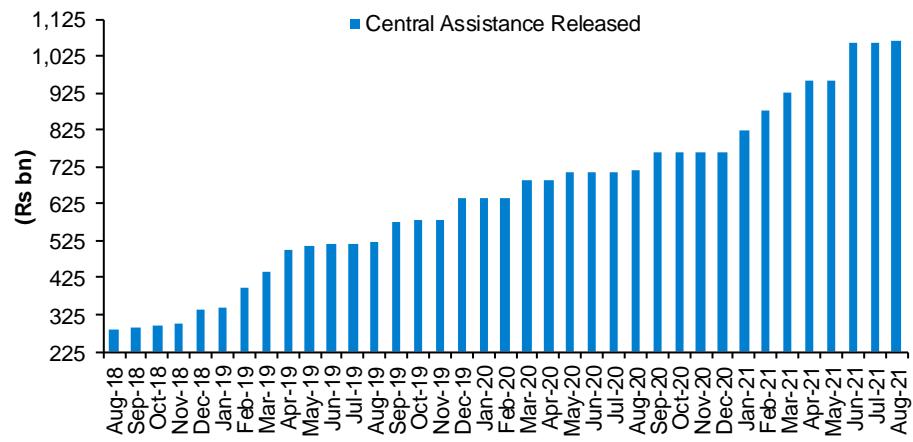
Source: Indian Railways, PL

Spend on PMAY-Urban housing continues to grow at stable pace

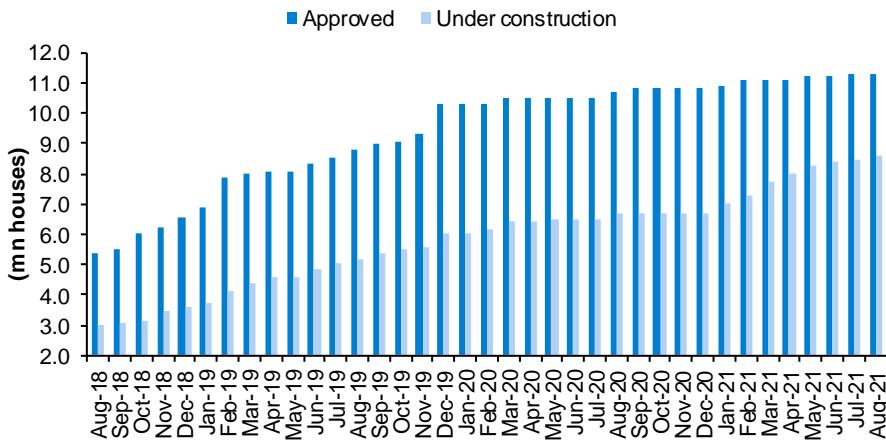
Projects under PMAY-U rose to Rs7.4trn in Aug'21



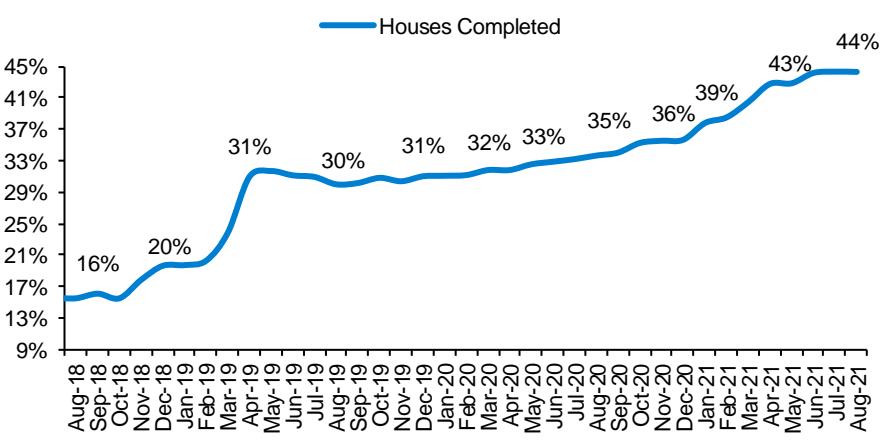
Sanction of funds keeping pace with approval of housing projects



Cumulative houses approved till Aug'21 at record 11.3mn units



House completion ratio rose to highest level since introduction of scheme



Source: MoHUA, PMAY-Urban, PL

Capacity utilisation expected to rise to 75%+ in FY23e, highest since FY19

All India

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY23E	544	393	76
FY22E	522	362	73
FY21E	496	327	69
FY20	478	330	72
FY19	458	344	78
FY18	436	305	72
FY17	427	280	68
FY16	412	277	70
FY15	393	259	70
FY14	370	254	72

South

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY23E	168	74	58
FY22E	168	68	54
FY21E	165	60	50
FY20	163	72	59
FY19	161	81	67
FY18	153	67	59
FY17	150	65	57
FY16	150	61	54
FY15	146	59	52
FY14	143	64	56

North

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY23E	112	81	95
FY22E	104	75	91
FY21E	102	68	85
FY20	100	62	80
FY19	98	64	83
FY18	93	59	80
FY17	93	56	76
FY16	91	57	82
FY15	84	53	83
FY14	79	50	83

East

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY23E	119	99	84
FY22E	109	91	83
FY21E	101	84	84
FY20	90	79	84
FY19	82	80	90
FY18	80	69	82
FY17	74	59	76
FY16	67	57	79
FY15	64	50	78
FY14	52	47	80

West

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY23E	76	72	73
FY22E	72	67	72
FY21E	64	60	64
FY20	63	64	69
FY19	61	65	76
FY18	56	60	72
FY17	56	55	68
FY16	51	56	74
FY15	49	53	78
FY14	46	51	77

Central

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY23E	70	66	84
FY22E	68	61	80
FY21E	66	55	76
FY20	63	52	77
FY19	57	54	82
FY18	54	49	80
FY17	54	46	77
FY16	52	47	84
FY15	50	45	87
FY14	50	42	87

Source: PL

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PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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