

Cement

Monthly Ground Check

Kamlesh Bagmar

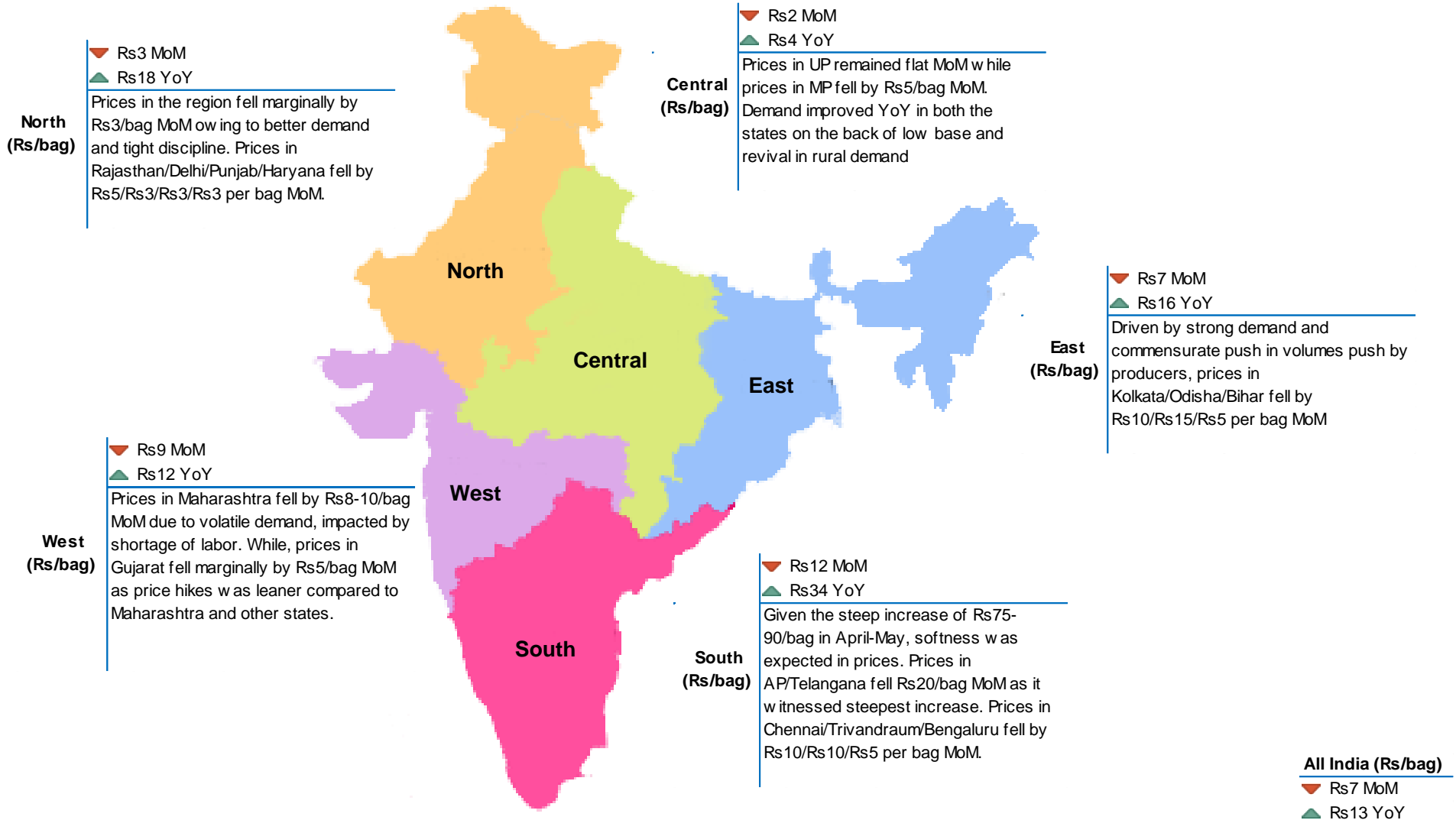
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Region-wise price tracker



Cement prices up sharply, demand continues to surprise positively

- Seeing positive demand trends in June:** Based on our channel checks, demand is estimated to have fallen 10-12% YoY (PLe:↓15%) in May, significantly below street expectation of 40%. Growth in East region and lower fall in North and Central region helped in limiting the impact of sharp fall in South and West region. Most importantly, momentum continued to remain positive in June (PLe:+2-4% YoY) with demand better than May levels. Weakness is largely restricted to Maharashtra, Telangana and Tamil Nadu markets. While, demand revived strongly in rest of markets.
- Cement prices on strong footing:** In line with our expectation, industry maintained strong pricing discipline across regions. All-India average price is up 10%/Rs30 per bag QoQ, led by steep rise in South and East regions. Prices in South/East/West/North/Central region rose 23%/10%/8%/6%/5% (Rs70/Rs30/Rs25/Rs20/Rs15) QoQ. Prices have dipped by Rs10/bag in South/West in June due to some easing after steep increase. Prices in East region fell by Rs7-9/bag due to increasing competition among top players for higher volumes. While, Prices in North and Central region remained stable.
- Maintain Overweight outlook:** Street is apprehensive on the sustenance of current demand trend and stability in prices. Data points on offtake and activity levels paint strong and sustainable demand outlook for non-metros/rural belts. Admittedly, demand in metros would remain muted in near term due to migration of labor. Nevertheless, recovery in these markets would be equally steep with strong margin profile. In this backdrop, we remain positive on the sector in wake of better placed demand outlook, sustainable price discipline and reasonable valuations.. UTCEM, ACEM and JKLC remains our top pick in the sector.

Region-wise monthly exit and average wholesale prices in Jun'20

Region	Exit Price (Rs/bag)			Average Price (Rs/bag)		
	Jun-20	May-20	Change	Jun-20	May-20	Change
North	359	362	-3	361	364	-3
South	365	377	-12	371	381	-10
West	347	356	-9	352	355	-3
Central	343	346	-2	346	348	-2
East	343	350	-7	323	327	-4
All-India	349	356	-7	351	355	-4

Source: Industry, PL

Rating and Target Price (TP) with assigned valuation

Company Name	Rating	TP	EV/EBITDA (x) CY21E/FY22E
ACC	BUY	1,435	10.5
Ambuja Cement	BUY	210	11.5
Heidelberg Cement	Acc	185	7.0
JK Lakshmi Cement	BUY	350	6.3
Shree Cement	Hold	18,330	16.0
The Ramco Cements	Acc	630	13.0
Ultratech Cement	BUY	4,375	14.0

Source: Company, PL

Valuation and Recommendation

Key Financials

Operating Estimates

Company Name	Revenue (Rs bn)			EBITDA (Rs bn)			PAT (Rs bn)			Realisation (Rs/t)			EBITDA (Rs/t)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ACC	153	130	153	21	17	21	14	11	14	4,867	4,911	4,876	726	696	739
Ambuja Cement	271	233	274	44	38	47	17	16	19	4,719	4,870	4,821	762	816	841
Heidelberg Cement	22	20	23	5	5	5	3	3	3	4,575	4,685	4,612	1,096	1,159	1,062
JK Lakshmi Cement	40	37	42	7	6	7	3	2	3	4,418	4,446	4,415	764	770	726
Shree Cement	129	116	133	38	34	39	15	15	21	4,571	4,640	4,547	1,461	1,471	1,409
The Ramco Cements	53	49	56	11	12	13	6	6	6	4,666	4,950	4,825	951	1,239	1,111
Ultratech Cement	421	384	438	94	84	94	36	37	47	5,082	5,225	5,150	1,039	1,116	1,081

Valuation and Recommendation

Company Name	Rating	Price	TP	M. cap (Rs bn)	P/E (x)			EV/EBITDA (x)			P/B (x)			EV/t (US\$)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ACC	BUY	1,250	1,435	235	17.1	21.9	17.2	9.0	11.2	8.9	2.0	1.9	1.7	78	78	78
Ambuja Cement	BUY	192	210	380	21.8	24.5	19.8	9.1	10.4	8.2	1.6	1.5	1.4	85	85	78
Heidelberg Cement	Accumulate	172	185	39	14.5	14.9	13.4	7.2	7.3	6.4	3.0	2.8	2.5	86	81	74
JK Lakshmi Cement	BUY	238	350	28	10.2	11.7	9.7	5.0	5.6	4.4	1.6	1.4	1.3	45	43	37
Shree Cement	Hold	22,117	18,330	771	52.0	54.2	37.7	20.9	22.4	19.5	6.1	5.6	5.0	212	195	181
The Ramco Cements	Accumulate	603	630	142	23.5	22.8	22.5	15.3	13.4	12.5	2.9	2.6	2.3	115	115	109
Ultratech Cement	BUY	3,745	4,375	1,028	29.9	29.6	22.9	13.4	14.6	12.4	2.8	2.6	2.4	145	132	126

Relative valuation

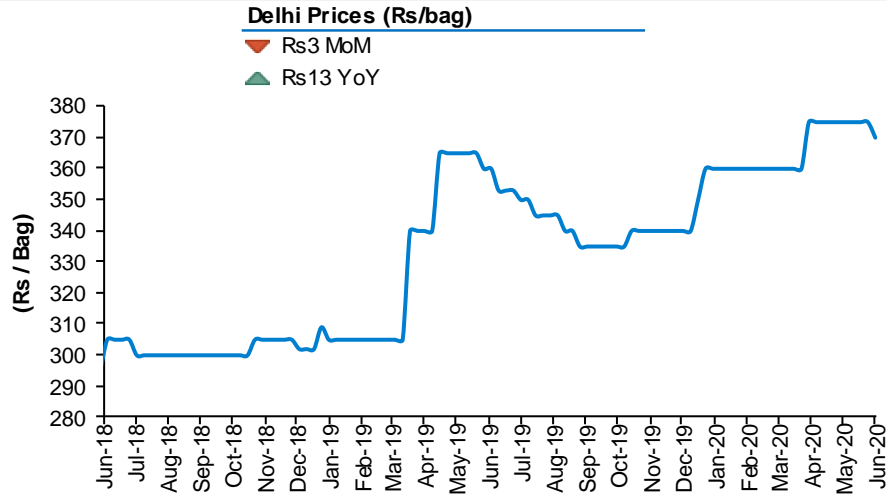
Company Name	Price (Rs/Share)	M.cap (Rs bn)	P/E		EV/EBITDA		P/B		EV/t (US\$)	
			FY21e	FY22e	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
ACC	1,250	234.7	21.9	17.2	11.2	8.9	1.9	1.7	78	78
Ambuja	192	380.3	24.5	19.8	10.4	8.2	1.5	1.4	85	78
HeidelbergCement India	172	38.9	14.9	13.4	7.3	6.4	2.8	2.5	81	74
JK Lakshmi	238	28.0	11.7	9.7	5.6	4.4	1.4	1.3	43	37
Shree Cement	22,117	770.5	54.2	37.7	22.4	19.5	5.6	5.0	195	181
Ramco Cements	603	142.3	22.8	22.5	13.4	12.5	2.6	2.3	115	109
Ultratech	3,745	1,027.7	29.6	22.9	14.6	12.4	2.6	2.4	132	126
JK Cement	1,191	92.5	18.8	23.3	9.7	9.8	3.0	2.7	169	167
Dalmia Bharat	564	105.9	34.2	46.9	5.9	5.9	1.0	1.0	54	52
Orient Cement	60	12.3	28.8	12.5	28.8	12.5	1.1	1.0	43	42
Birla Corporation	522	39.4	14.8	9.6	6.3	5.0	0.8	0.7	94	96
India Cements	129	38.9	35.6	52.1	9.8	11.1	0.7	0.7	65	80
Prism Johnson	42	20.7	171.7	21.0	7.8	6.3	1.8	1.8	81	78
Star Cement	88	35.1	12.3	13.2	7.9	8.1	1.9	1.7	104	101
Sagar Cement	353	7.6	204.9	13.9	8.3	4.7	0.8	0.8	35	39

Source: Bloomberg, PL

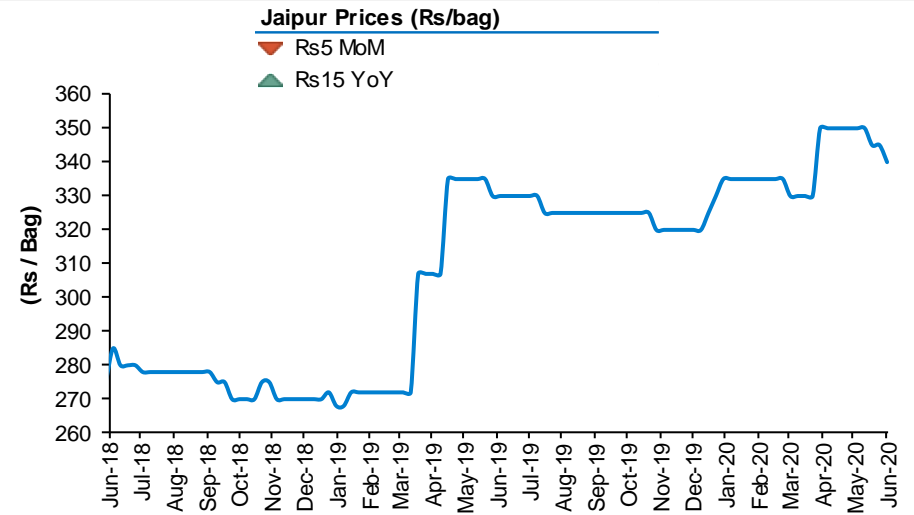
India – City wise Cement pricing trend

North: Region's average up 6%/Rs20/bag QoQ on a strong base

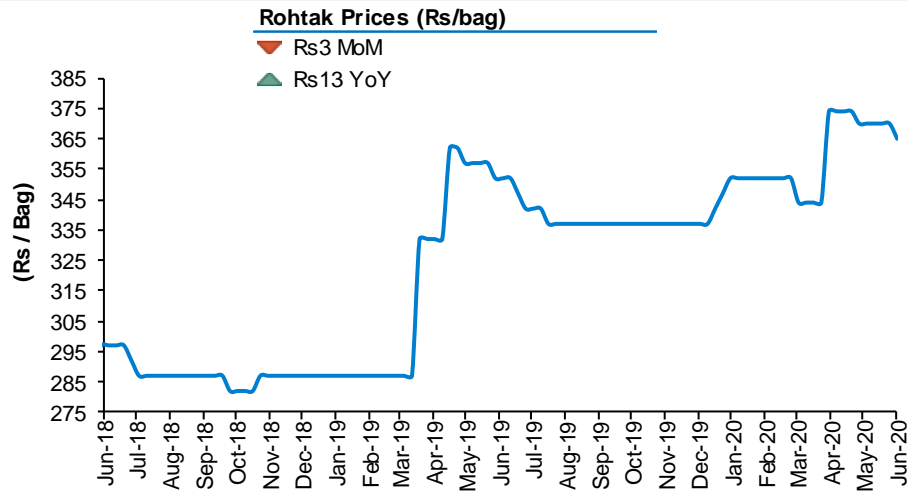
Delhi



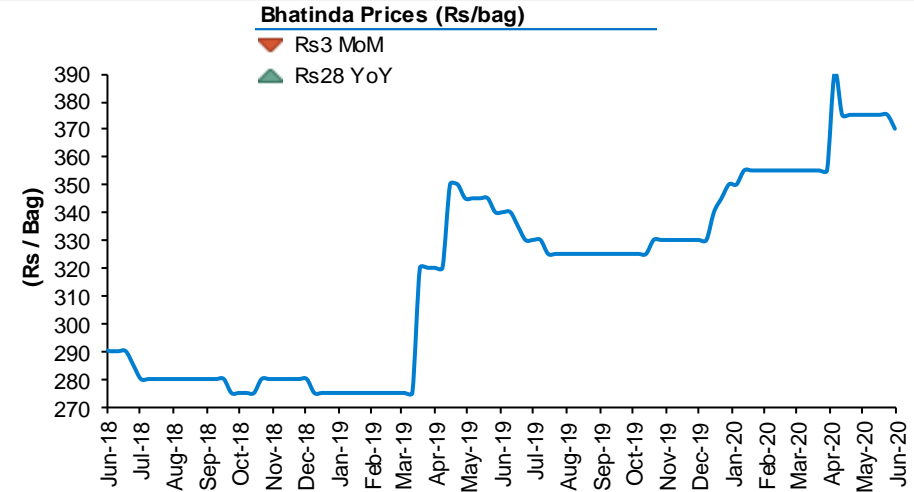
Jaipur



Rohtak



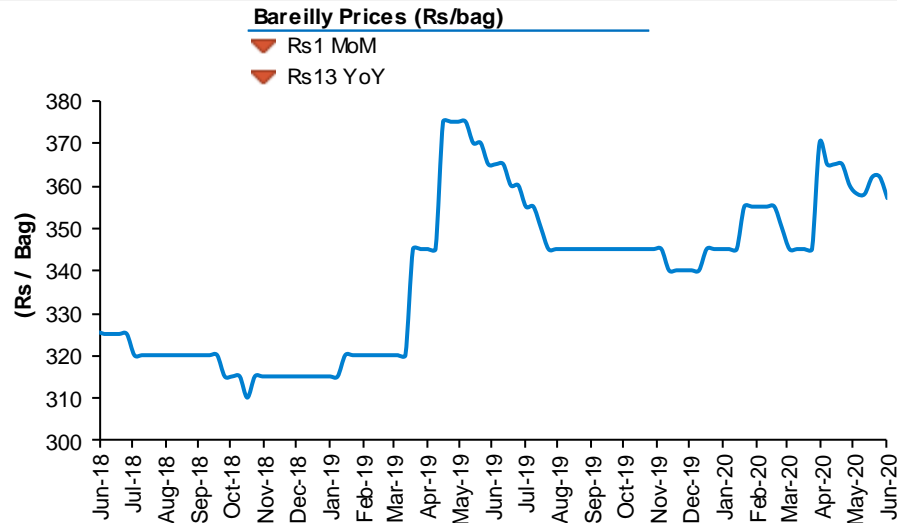
Bhatinda



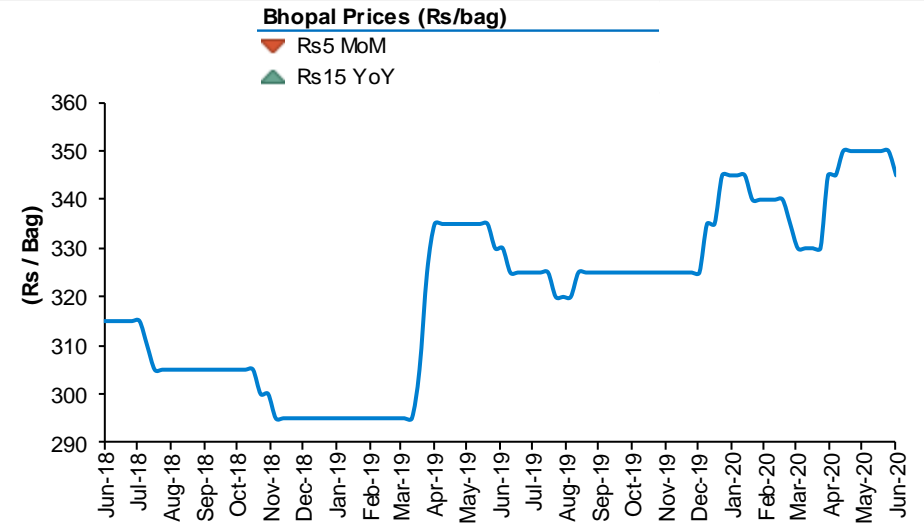
Source: PL

Central: Average inched up by 5%/Rs15/bag QoQ on a high base

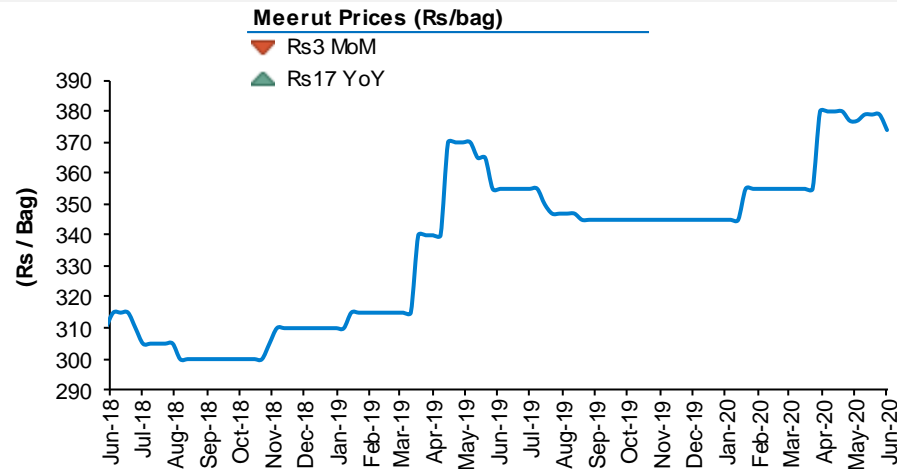
Bareilly



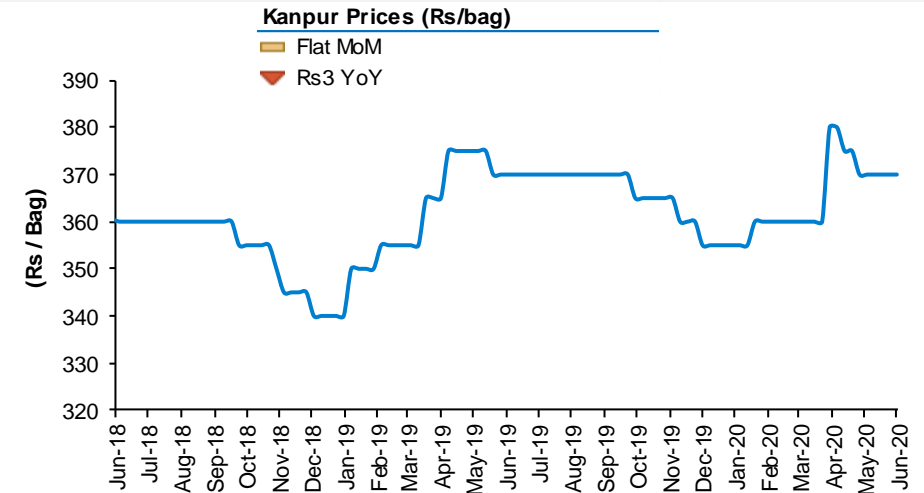
Bhopal



Meerut



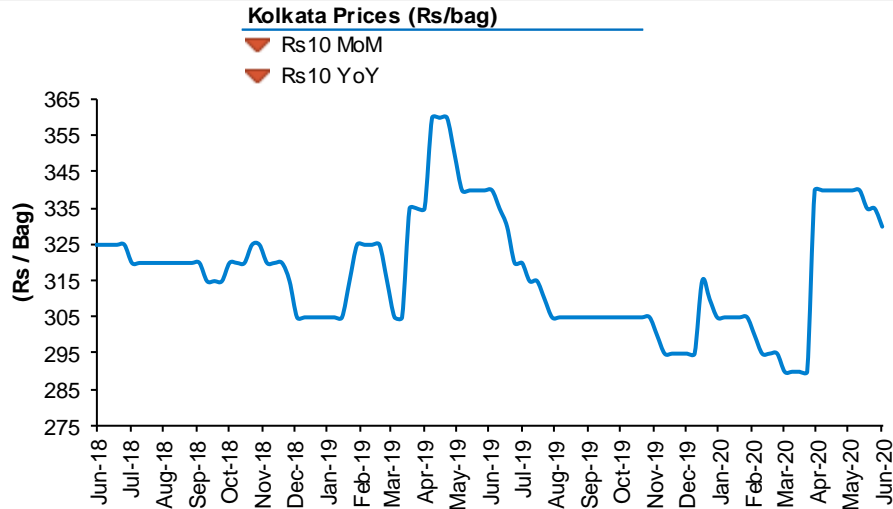
Kanpur



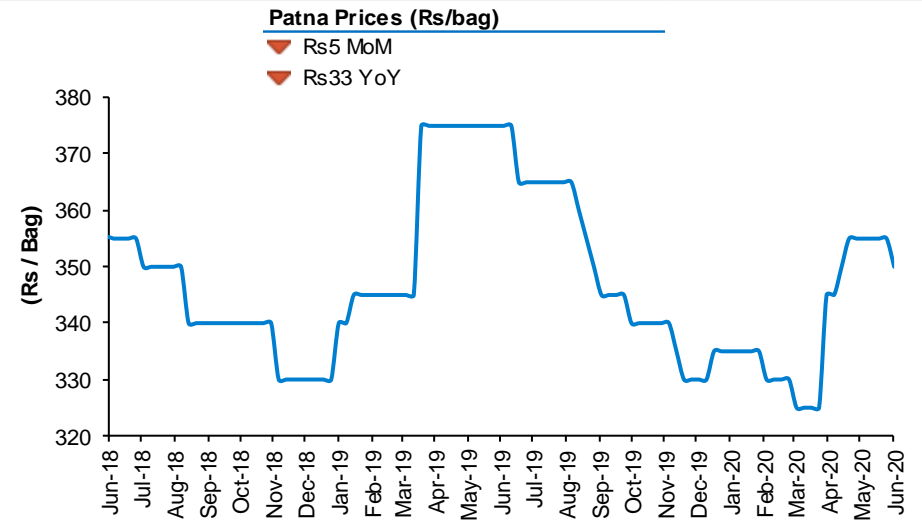
Source: PL

East: After a long gap, prices moved up, average rose 10%/Rs30/bag QoQ

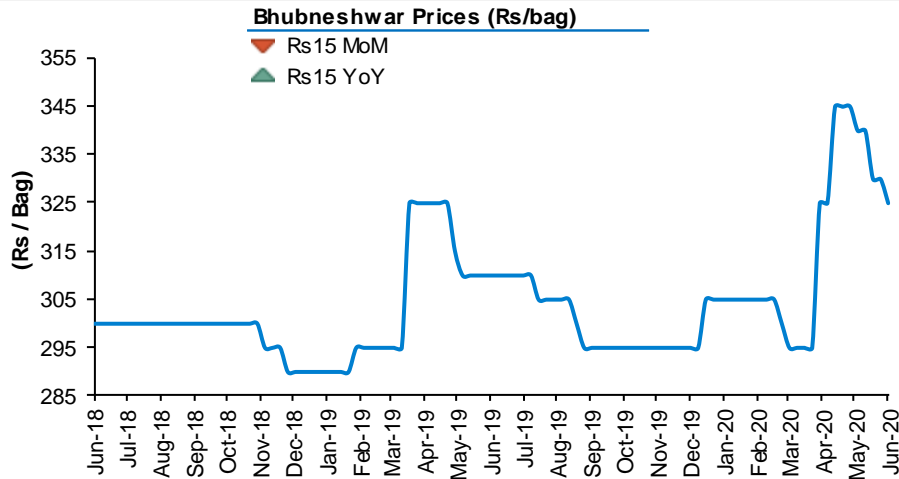
Kolkata



Patna



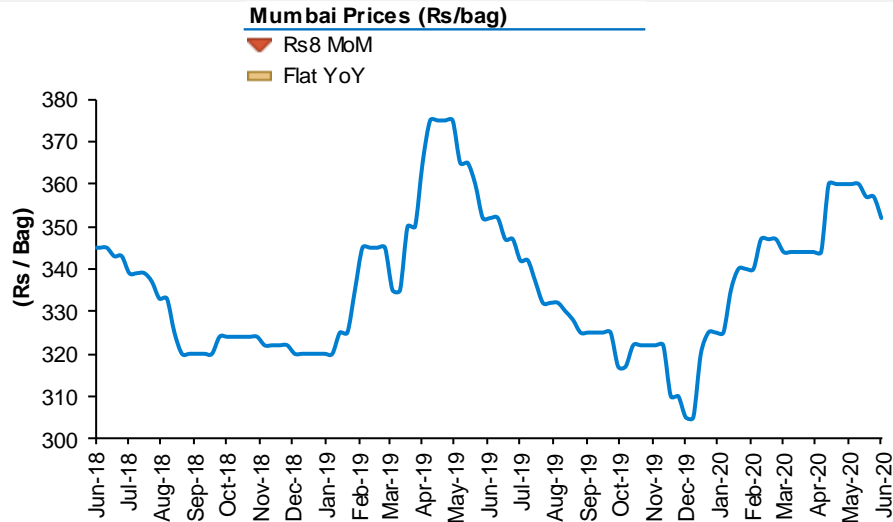
Bhubneshwar



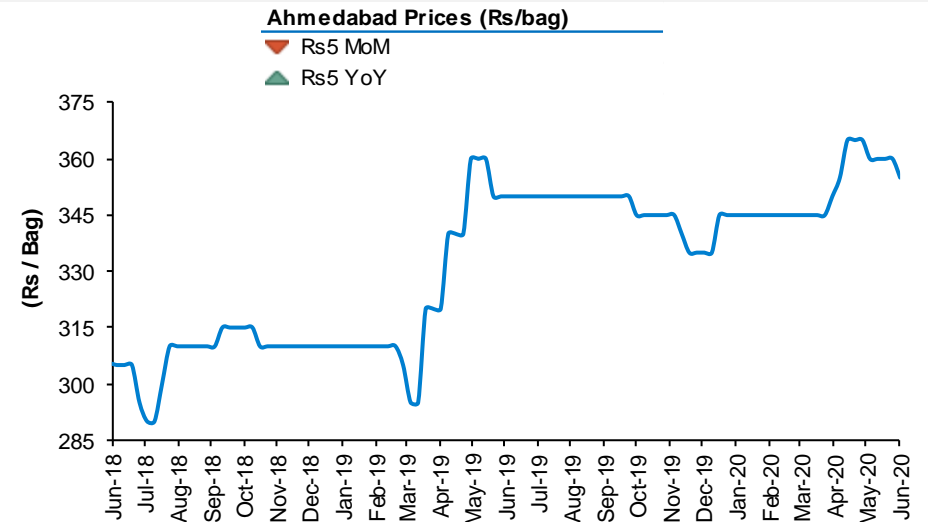
Source: PL

West: Led by Maharashtra, region's average rose 8%/Rs25/bag QoQ

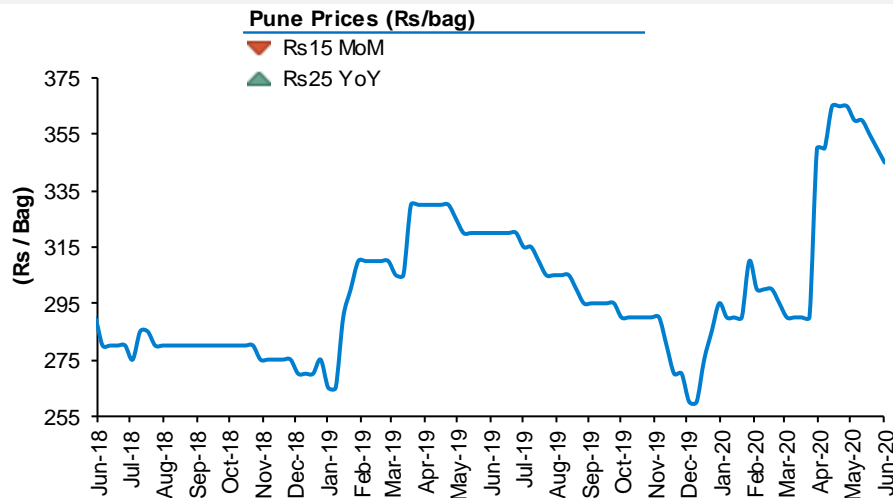
Mumbai



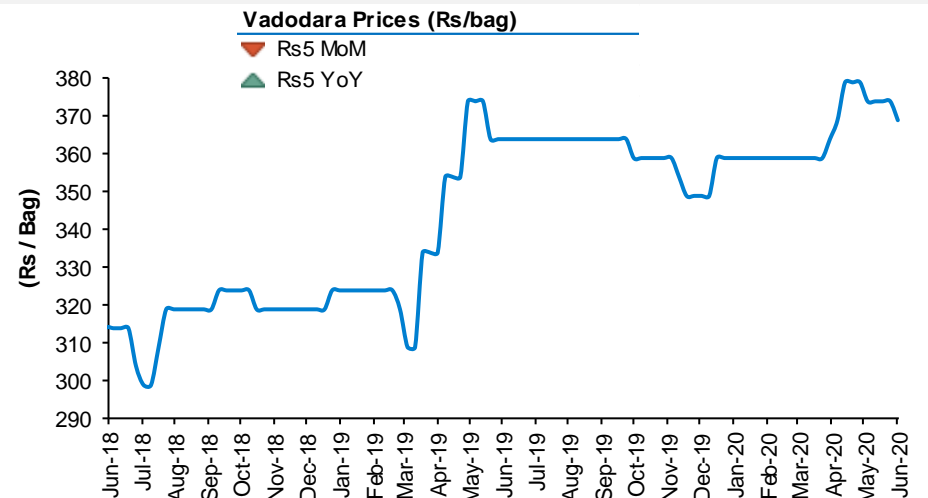
Ahmedabad



Pune



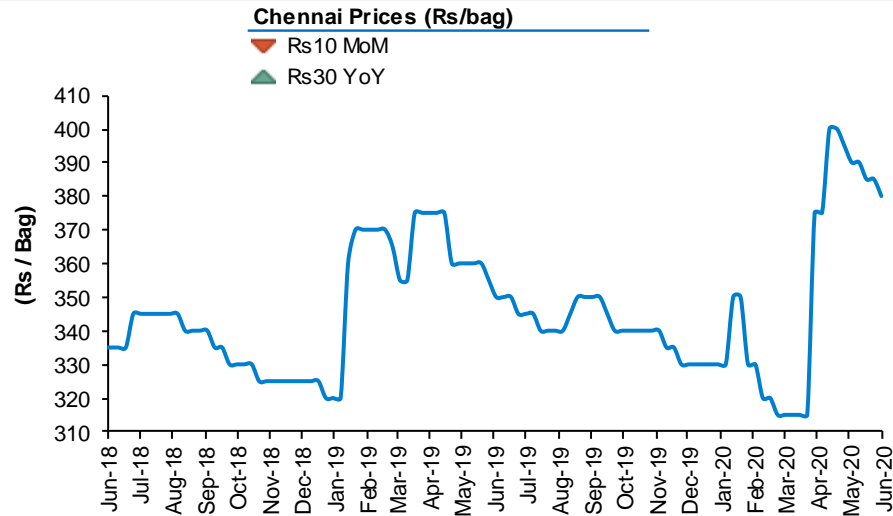
Vadodara



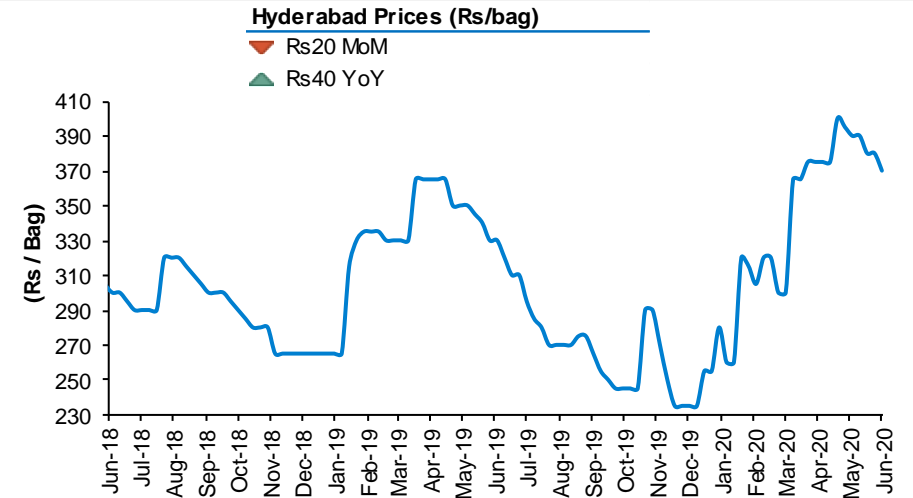
Source: PL

South: Rise across the states, average up sharply by 23%/Rs70 per bag QoQ

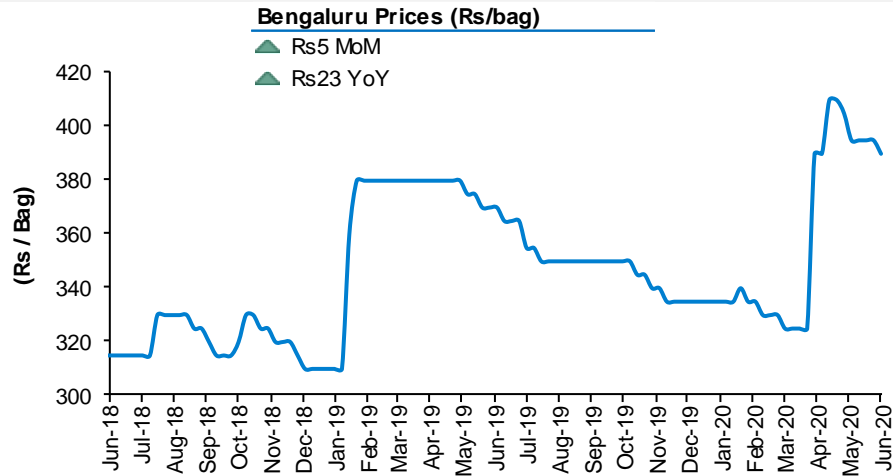
Chennai



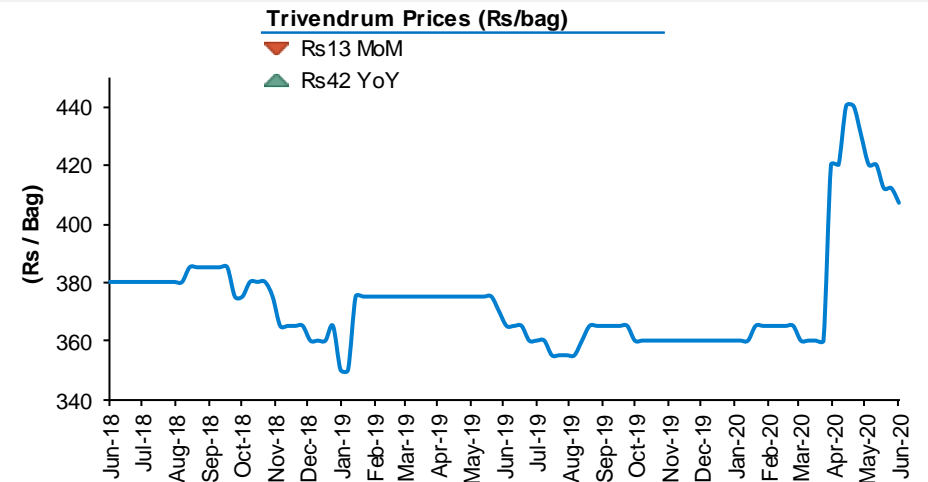
Hyderabad



Bengaluru



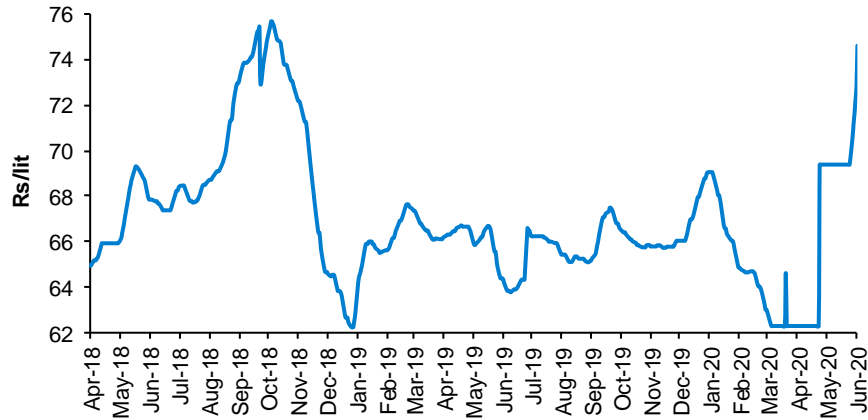
Trivandrum



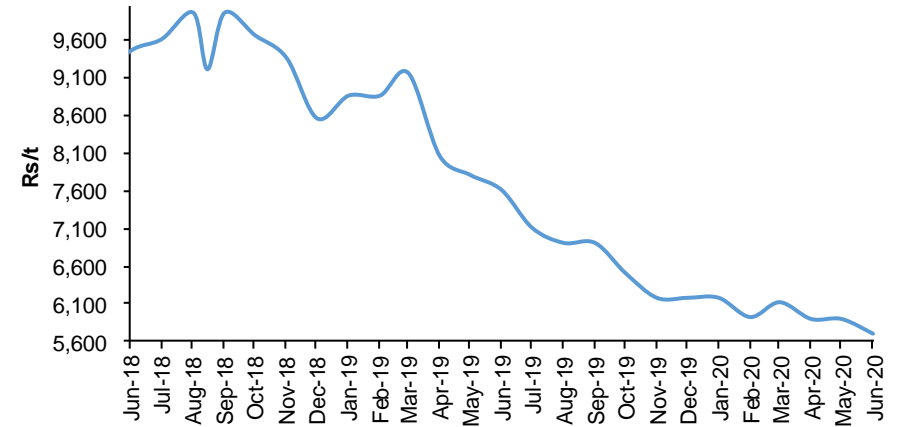
Source: PL

Variable cost Index down by Rs150/t YoY, led by steep fall in coal cost

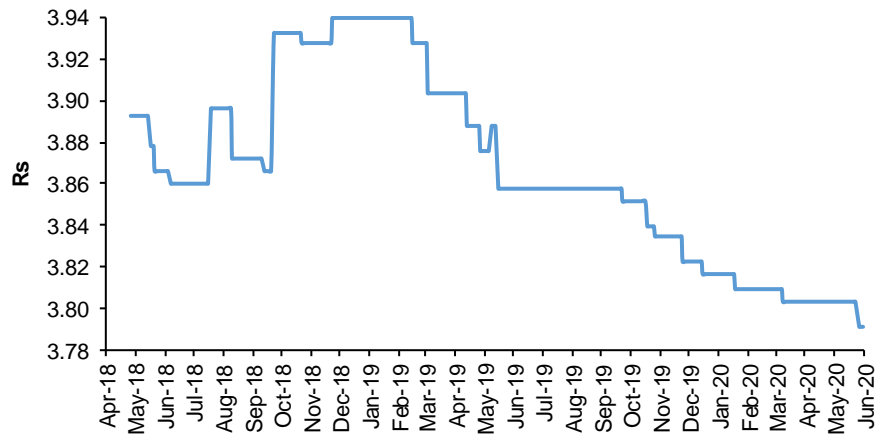
India Diesel prices rose 16% YoY due to hike in excise duty



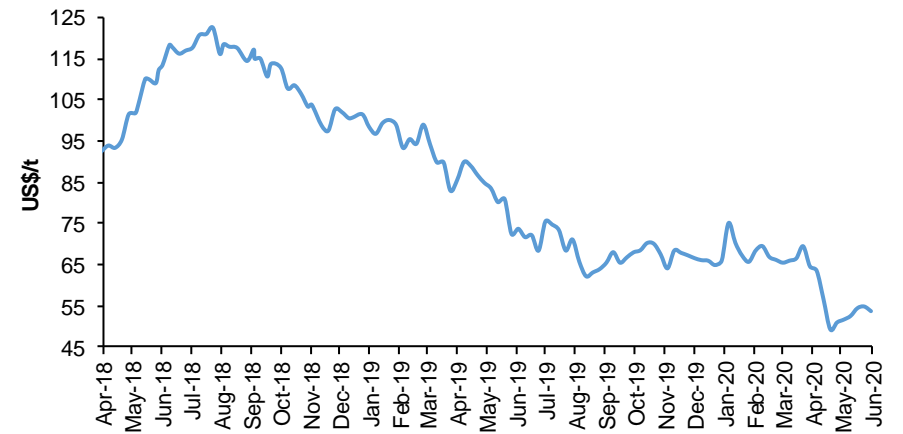
Domestic Pet coke prices at two-year low



Average road freight cost/tnkm at lowest level in last two years



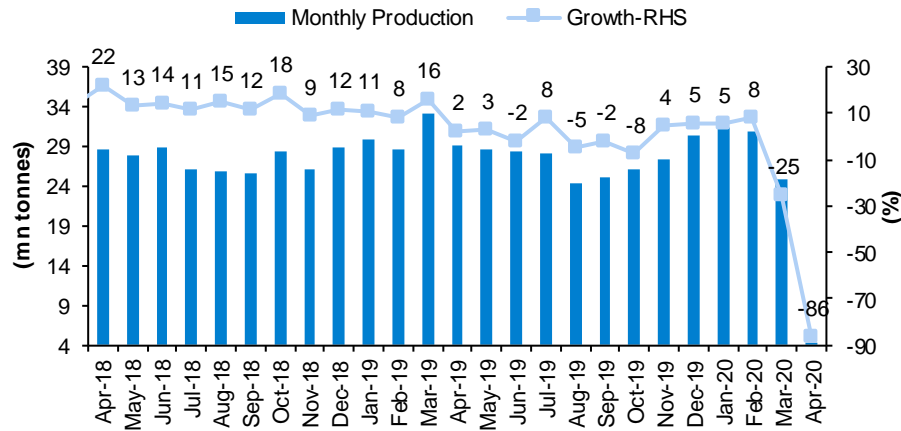
Thermal coal prices recovered; still down 27% YoY



Source: Bloomberg, PL

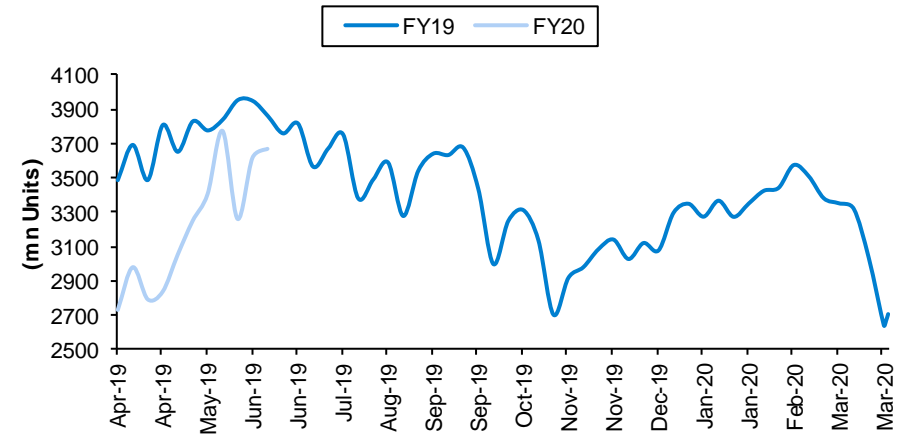
Lead indicators suggest bottoming-out of economy activity

Cement Production expected to have revived strongly in May



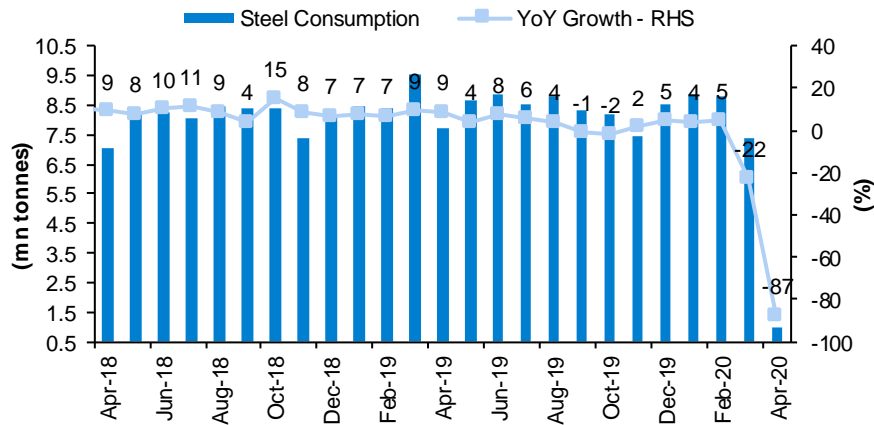
Source: EAI, PL

Fall in power demand narrowed to near 14% in first fortnight of June



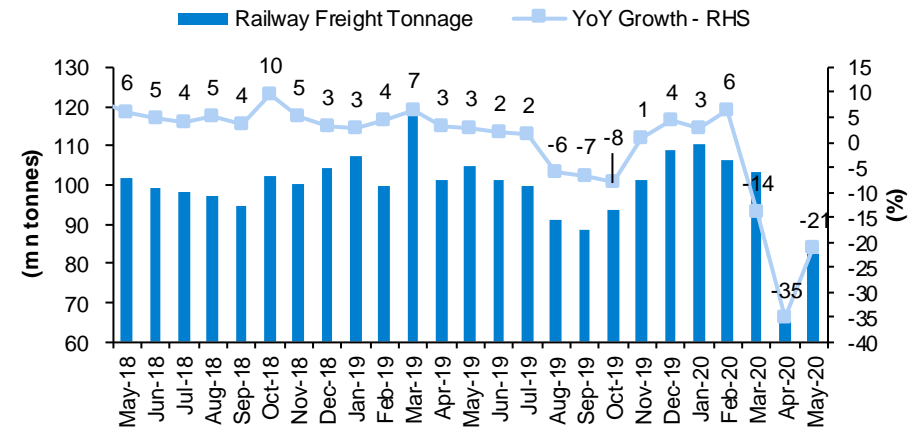
Source: POSOCO, PL

Steel consumption remained weak due to weakness in Auto and industrials



Source: JPC, PL

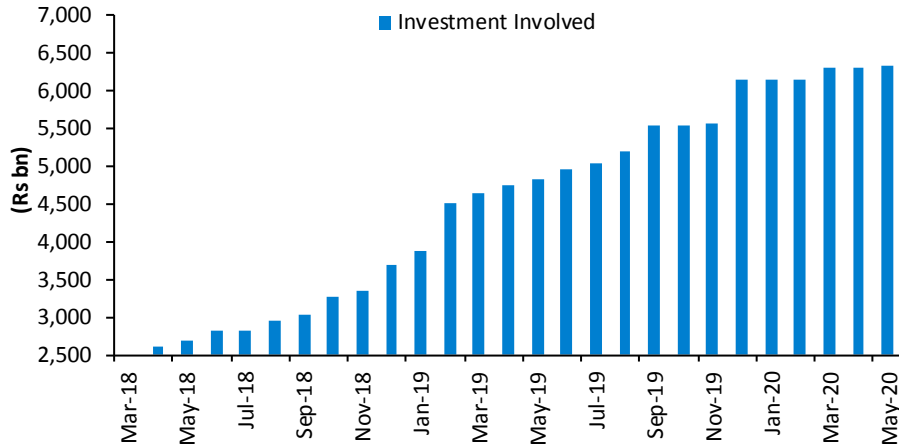
Fall in Railway freight tonnage improved significantly in May



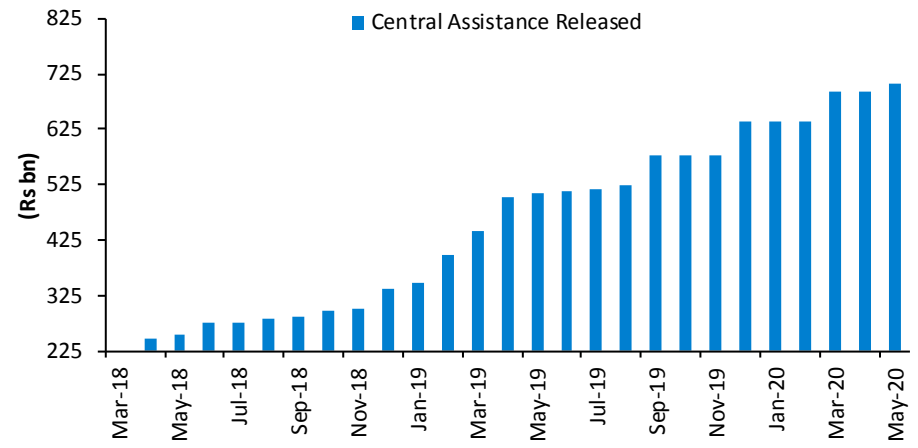
Source: Indian Railways, PL

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

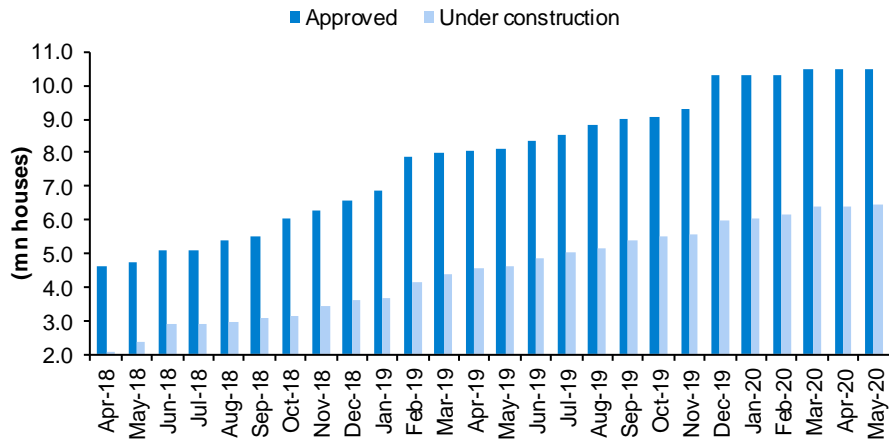
Projects under PMAY-U rose to Rs6.4trn in May'20



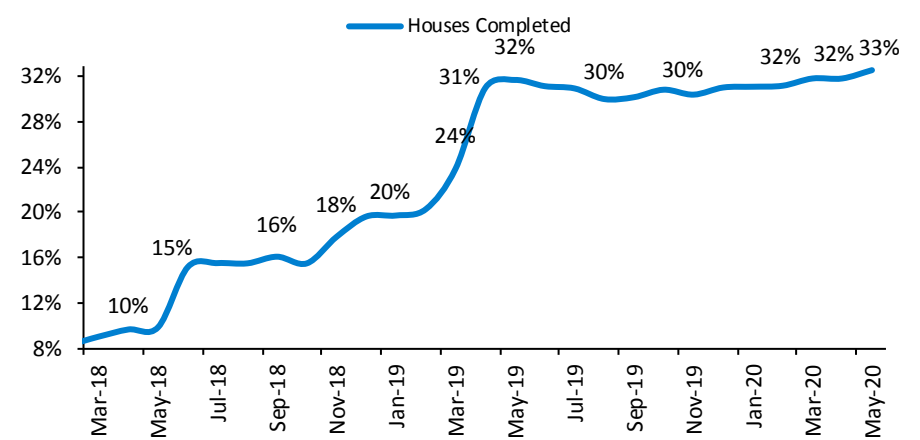
Sanction of funds by Govt keeping pace with approval of housing projects



Cumulative houses approved till May'20 at record 10.5mn



Houses completion ratio remained steady at 33%



Source: MoHUA, PL

Demand-Supply scenario: Utilisation levels expected at ~63% in FY21E

AI India

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY22E	509	344	69
FY21E	495	296	63
FY20E	471	327	72
FY19	449	337	78
FY18	426	301	72
FY17	419	276	68
FY16	404	271	70
FY15	385	257	71
FY14	365	252	72
FY13	350	242	73

South

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY22E	170	75	62
FY21E	168	63	55
FY20E	162	70	59
FY19	161	78	65
FY18	153	67	58
FY17	150	65	57
FY16	150	61	54
FY15	146	59	52
FY14	143	64	56
FY13	142	65	59

North

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY22E	102	67	85
FY21E	100	58	77
FY20E	98	64	84
FY19	96	64	85
FY18	91	59	81
FY17	91	56	78
FY16	90	57	84
FY15	83	53	85
FY14	77	50	85
FY13	73	46	84

East

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY22E	100	82	77
FY21E	93	71	73
FY20E	85	77	89
FY19	74	76	94
FY18	72	66	86
FY17	68	55	77
FY16	61	52	78
FY15	58	48	80
FY14	49	45	81
FY13	46	42	77

West

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY22E	70	66	57
FY21E	70	56	47
FY20E	63	64	65
FY19	61	65	77
FY18	56	60	72
FY17	56	55	68
FY16	51	56	74
FY15	49	53	78
FY14	46	51	77
FY13	46	49	76

Central

Year	(in mn tonnes)		Utilisation (%)
	Capacity	Demand	
FY22E	68	54	68
FY21E	66	48	62
FY20E	63	53	76
FY19	57	54	82
FY18	54	49	80
FY17	54	46	77
FY16	52	47	84
FY15	50	45	87
FY14	50	42	87
FY13	44	39	91

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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