

Cement

Cements | Sector Update

December 14, 2023

Demand to sustain momentum; prices to remain subdued and consolidation to play a key role

Key Points

- Demand in 2HFY24 to remain moderate and NBIE believes FY24 demand will close in the range of 8-9%.
- Fuel prices in the beginning of 2HFY24 have firmed up and we believe the impact will be seen in 4QFY24.
- NBIE does not see any major improvement in pricing in the subsequent quarter. Price increase in FY24 should be ~1-2% on the back of premiumization, product mix and trade: non-trade mix.
- Consolidation in the Indian cement sector is gaining momentum, with major players like Ultratech Cement and Ambuja Cement strategically acquiring capacities, driving increased market share and dominance while also eyeing stressed assets and greenfield initiatives for further expansion.

Infrastructure investment and a favourable macroeconomic climate will help solidify demand

Favourable macro trends would stimulate expansion of the cement industry in FY24. Across all markets, infrastructure development activities have lifted demand. The government's dedication towards infrastructure development, persistent demand for housing amid rapid urbanisation and rising housing loan penetration are expected to boost cement demand.

The National Infrastructure Pipeline (NIP) is projected to consume Rs111 trillion during FY20-FY25, contributing to the 18% increase in government capex from FY14 to FY24.

Demand would be stimulated by the government's allocation of Rs195bn for metro extensions and the Bharatmala Pariyojana road programme, in addition to the Rs80bn set aside for Smart Cities.

In light of the upcoming LS election in 2024, it is critical that these initiatives stimulate economic demand. The National Rail Plan is notable for its allocation of Rs9.4 trillion. A significant 67% of this expenditure will be allocated for terminal and railway infrastructure, which will increase cement demand.

Company	Rating	CMP (Rs)	TP (Rs)
ACC	Buy	2,184	2,495
Ambuja Cement	Buy	509	602
Birla Corporation	Buy	1,394	1,610
Dalmia Bharat	Buy	2,376	2,908
Heidelberg Cement	Accumulate	225	183
JK Cement	Buy	3,872	4,005
JK Lakshmi Cement	Accumulate	880	842
Nuvoco Vistas	Buy	371	414
Sagar Cements	Accumulate	270	251
Shree Cements	Buy	28,537	30,416
Star Cement	Accumulate	169	174
The Ramco Cements	Buy	1,049	1,248
Ultratech Cements	Buy	9,739	10,218

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Exhibit 1: Expect industry demand to grow in high single digit in FY24

Region	Demand Outlook				Mn Tonnes
	FY22	FY23	FY24E	FY23 - YoY (%)	FY24E - YoY (%)
North Region	74.5	80.0	87.1	7.4%	8.9%
Central Region	54.0	59.2	65.0	9.7%	9.8%
Eastern region	88.2	97.0	106.1	10.0%	9.4%
West Region	60.2	67.2	73.5	11.7%	9.4%
South Region	69.9	76.4	83.9	9.2%	9.8%
All India	346.8	379.9	415.7	9.5%	9.4%

Source: Nirmal Bang Institutional Equities Research

North Region: During 2QFY24, the Housing sector witnessed significant expansion in both urban as well as rural areas, except for regions like Uttarakhand, Haryana and Delhi, where performance was affected by heavy rainfall. Demand decreased temporarily at the start of 3QFY24 due to the festive season, state elections and prohibition on construction activities in Delhi and the National Capital Region. Nevertheless, a resurgence in demand is expected in the subsequent quarter. Nonetheless, election-related labour shortages (if the labour is utilised for election campaign purposes) may dampen optimism in 4QFY24. The Commercial segment maintained a consistent growth trajectory, propelled by heightened Industrial and Commercial operations across various geographical areas. In contrast, the infrastructure sector maintained its rate of expansion, propelled by ongoing initiatives, including the following:

- Delhi Urban Extension Road
- Delhi Metro
- Delhi-Meerut Highway
- Dwarka Expressway
- Bharatpur and Jewar Airport

The cement companies under NBIE coverage are anticipated to increase their cumulative capacity by 9.2MTPA by the end of FY24 via organic as well as inorganic expansion. Much of this supply expansion will come from Nuvoco Vistas (1.1MTPA), JK Lakshmi (1.5MTPA) and Shree Cement (6.6MTPA). Although average prices in the market improved in 2QFY24, they subsequently declined by 1-1.2% MoM in Nov'23. This decline was attributed to price reduction of Rs3-5/bag that followed the increase in prices observed in Oct'23.

Central Region- The Infrastructure segment continues to experience an upward trajectory, driven by ongoing projects such as the following:

- Narmada Valley Development project
- Gorakhpur Link Expressway
- Ramvan Gaman Path Yojana
- Ganga bridge

Growth in the Commercial segment is consistent across regions in terms of Industrial and Commercial activity. NBIE coverage companies are not expected to add substantial capacity to the Central region by the end of FY24; Heidelberg Cement in UP is the only contributor with a 0.3MTPA increase. Although prices have slightly increased vs the average prices in 2QFY24, they have decreased by ~Rs5 per bag since the Oct'23 price increase. As a result, prices have decreased by 1.2–1.4% on MoM basis.

East Region- Apart from West Bengal and Bihar, the Housing sector expanded in other parts of the region during 2QFY24. Throughout the same period, adverse weather conditions, specifically intense precipitation in West Bengal and Bihar, had an adverse effect on demand for infrastructure and commercial goods. This, coupled with the holiday season led to the

demand momentum in Nov'23 dissipating even further from the desired levels. Demand in the upcoming quarters would be driven by infrastructure projects such as the following:

- Varanasi Ranchi Kolkata motorway
- Kolkata Metro
- Tajpur Purulia industrial corridor
- Kolkata Siliguri motorway

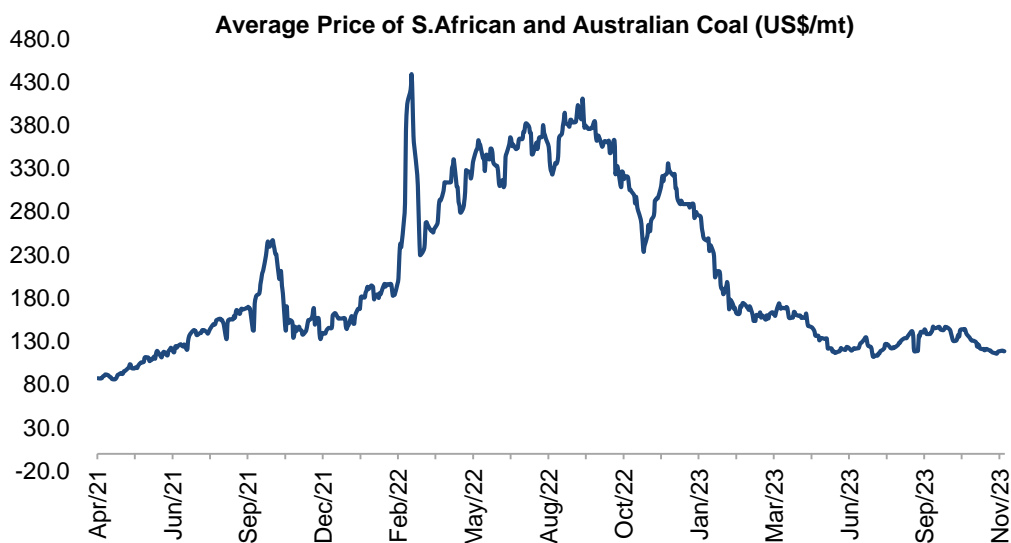
As of the end of FY24, NBIE coverage universe is anticipated to increase cumulative capacity by 17.97MTPA - Star Cement (7.03MTPA) in the Northeast and Ultratech Cement (4.34MTPA) in West Bengal and Bihar. In response to weakening demand, NBIE channel checks reveal that prices in the region declined by Rs10-30 per bag, resulting in a 3-5% MoM decline.

West Region-Several ongoing projects, including the Navi Mumbai International Airport, Mumbai Metro, Mumbai Trans Harbour Link, Mumbai Goa Motorway, the new phase of Pune Metro in Maharashtra and major infrastructure projects such as the Ahmedabad-Mumbai High-Speed Railway, Vadodara-Mumbai Motorway and Vadodara-Delhi Motorway in Gujarat contributed to the infrastructure segment's robust demand in 2QFY24. During this period, Housing and Commercial sectors both witnessed expansion across regions. Demand, which was subdued during Oct'23-Nov'23, is anticipated to increase after the holiday season. NBIE coverage is anticipated to increase capacity by 1.03MTPA by the end of FY24. This supply increase is the result of the organic expansion of Ultratech Cement in Gujarat. There were fluctuations in Nov'23 prices in the range of Rs5-7/bag relative to the average price in 2QFY24.

South Region-Infrastructure-led demand is maintained by initiatives like the Ernakulam Road and Kasargode to Kozikode projects. In contrast, expansion of the Commercial sector is propelled by strong market demand for office space and warehouses. The supply addition is anticipated to amount to 4.4MTPA by the end of FY24, facilitated by the expansions of Dalmia Bharat in Andhra Pradesh (1MTPA), Karnataka (0.9MTPA) and Tamil Nadu (2.5MTPA). The NBIE coverage universe is anticipated to contribute to this capacity. Prices in the Southern region witnessed an increase of Rs15-20 per bag throughout Oct'23. On the contrary, price reductions of Rs5-10/bag were noted in Tamil Nadu and Kerala as of Nov'23. Cement prices are expected to abate in the near future as a result of the ongoing monsoon in Tamil Nadu, elections in Telangana and the recent cyclonic rainfall in other areas of the south region.

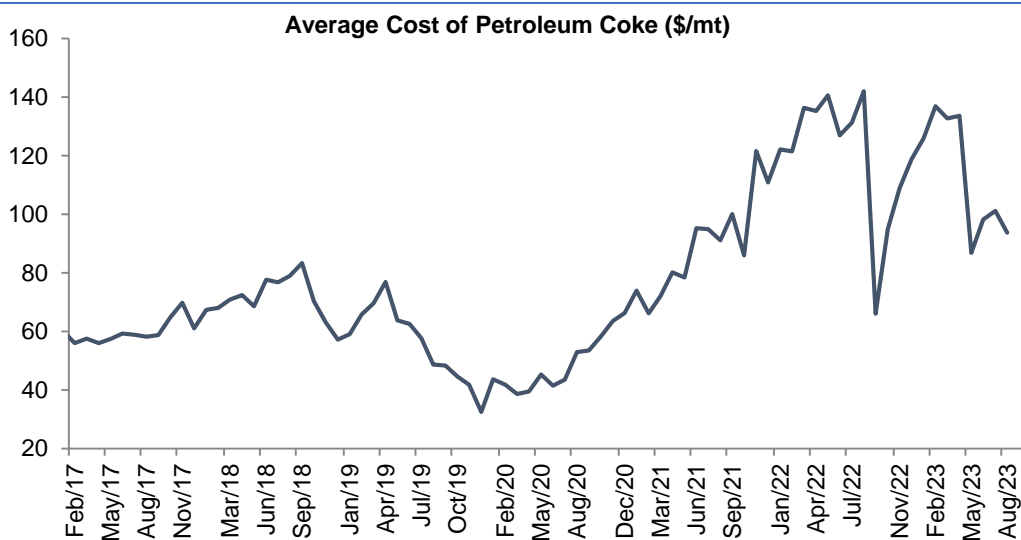
Trends in Operating Cost-

Exhibit 2: Average price of imported coal on a declining trend from its peak of US\$430/mt in Feb'22 to US\$118/mt in Nov'23



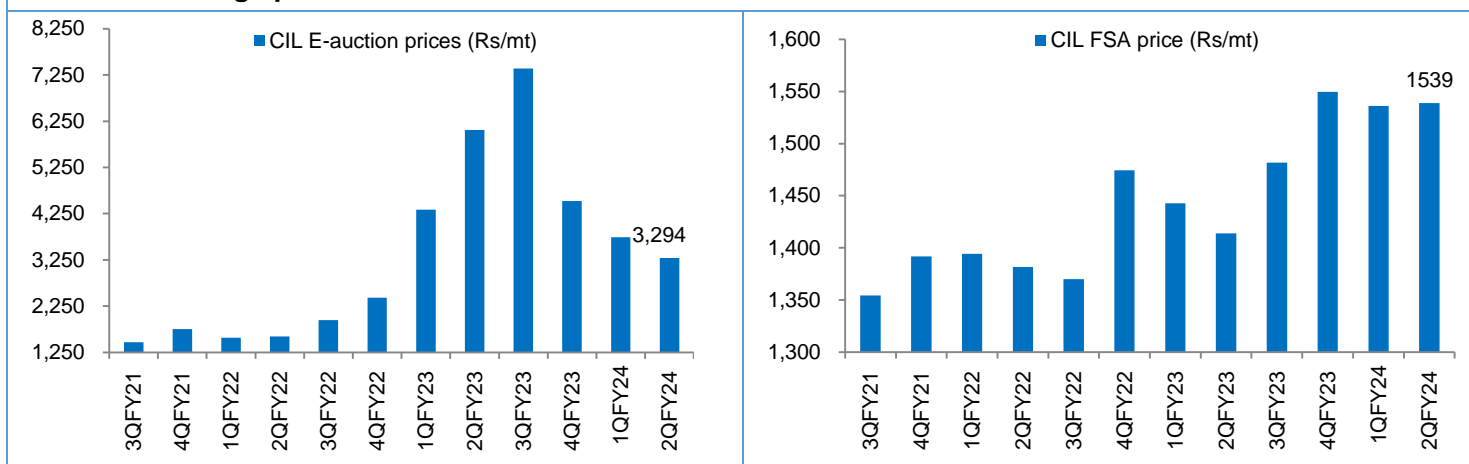
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: Average price of Petcoke has declined by 34% YoY as of Aug'23



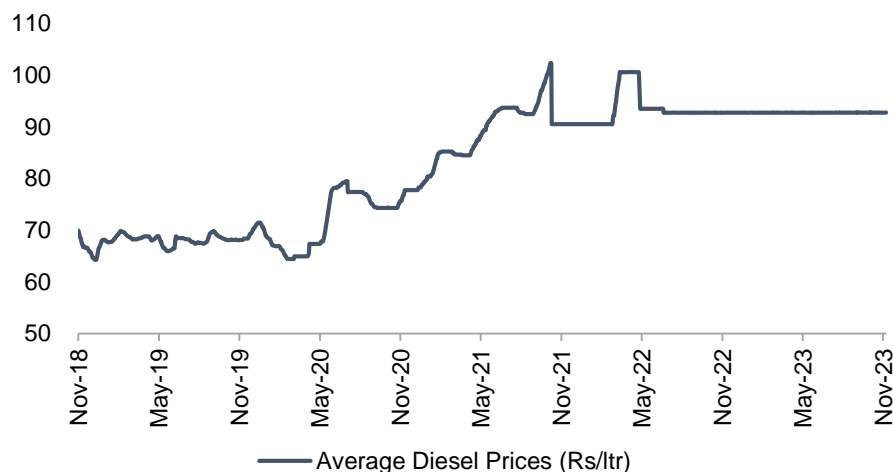
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 4: Average prices of domestic coal to remain stable



Source: Coal India, Nirmal Bang Institutional Equities Research

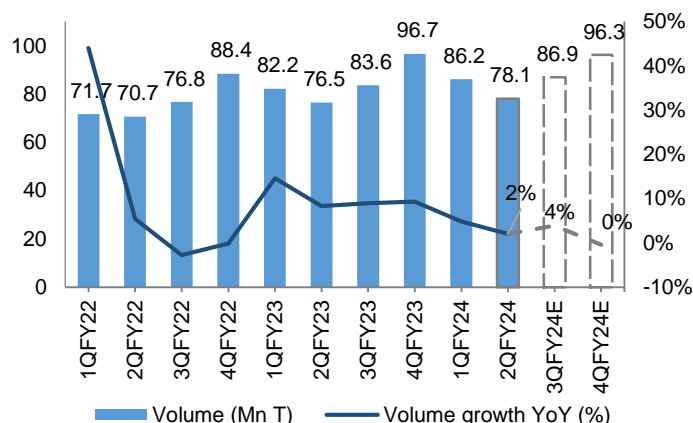
Exhibit 5: Average diesel prices (Pan-India) have remained stable at Rs93/litre as of Nov'23



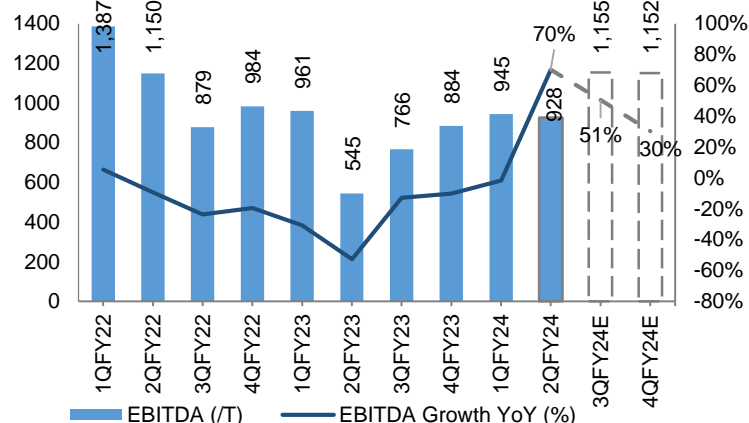
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Consolidation theme playing out well- An illustration of the burgeoning consolidation trend in the Indian cement industry is the recent acquisition of 10.8MTPA capacity by Ultratech Cement from Kesoram Industries. This action follows the 6.1MTPA-capacity acquisition of Sanghi Cement by Ambuja Cement, reflecting the sector's ongoing tendency towards consolidation. Considerable attention also needs to be paid to the 16MTPA strained assets of Bheema Cement, Vardraj Cement and the Cement Corporation of India. These assets serve as an incentive for leading companies to enhance their market positions via acquisitions. Concurrently, there are plans for greenfield developments as cement companies consider expanding their production capacity by an additional 150-160MTPA in the coming five years. Ultratech Cement, which currently has a capacity of 143MTPA, intends to boost its installed capacity to 200MTPA by the end of FY28. Shree Cement intends to increase capacity to 80MTPA by FY30 while Ambuja Cement intends to increase capacity to 140MTPA by FY28. The combined share of the top four companies by capacity in the sector's total capacity has risen to ~53% and is anticipated to increase further as the main participants continue to expand through consolidation. The cement capacity held by small and medium-sized enterprises, which includes notable companies such as Heidelberg Cement and Nuvoco Vistas, is estimated to be 165MTPA. Consequently, the prospects for additional acquisitions continue to be substantial.

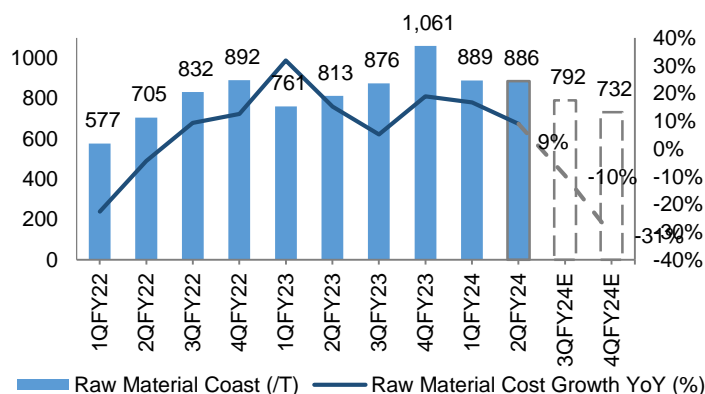
NBIE coverage operational data – story in charts (as of 2QFY24)

Exhibit 6: Volume growth is expected to revive by 4QFY24


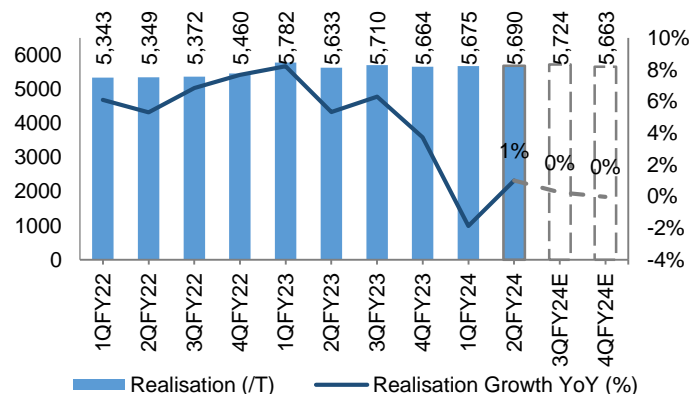
Source: Nirmal Bang Institutional Equities Research

Exhibit 7: Operating leverage to improve EBITDA/T levels


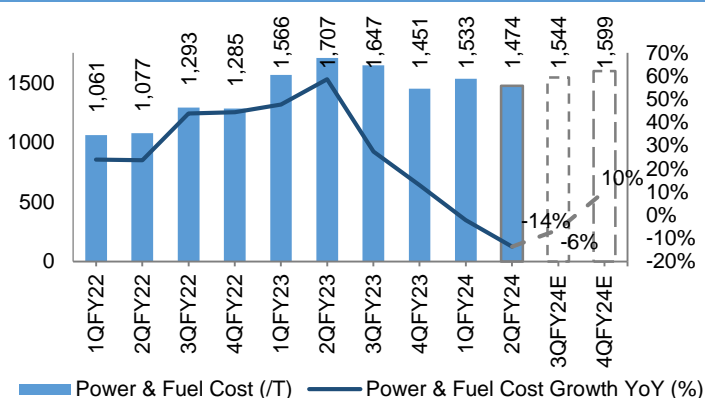
Source: Nirmal Bang Institutional Equities Research

Exhibit 8: Availability of Fly Ash and Slag may impact RM cost


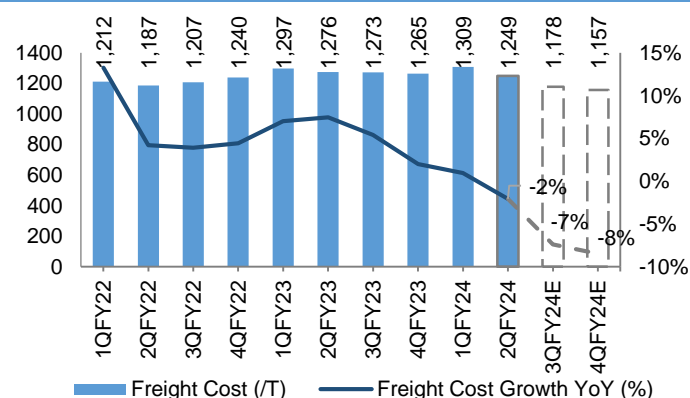
Source: Nirmal Bang Institutional Equities Research

Exhibit 9: Prices to remain stable in FY24


Source: Nirmal Bang Institutional Equities Research

Exhibit 10: No major surprises expected from international commodity prices


Source: Nirmal Bang Institutional Equities Research

Exhibit 11: Lower lead distance to reduce freight costs


Source: Nirmal Bang Institutional Equities Research

Exhibit 12: NBIE coverage financial summary

Company	CMP (Rs)	Rating	TP (Rs)	MCap (Rsbn)	Revenue (Rsmn)		EBITDA Margin (%)		EPS (Rs)		EV/MT (X)		EV/EBITDA (X)		RoE (%)	RoCE (%)
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E		
ACC	2,184	Buy	2,495	410.2	1,97,095	2,14,708	14.7	16.6	97.3	121.0	146.0	139.5	14.1	11.4	14%	17%
Ambuja Cement	509	Buy	602	1,010.8	3,48,136	4,10,821	21.7	21.1	25.9	28.8	126.8	106.0	9.6	8.1	13%	16%
Birla Corporation	1,394	Buy	1,610	107.3	94,417	1,00,744	15.2	18.2	59.1	103.4	89.0	80.9	10.0	7.9	12%	10%
Dalmia Bharat	2,376	Buy	2,908	445.3	1,47,964	1,71,872	19.2	23.4	42.5	81.0	106.6	98.2	15.9	11.2	9%	12%
Heidelberg Cement	225	Accumulate	183	51.0	23,841	24,659	14.9	19.8	7.3	10.1	89.2	89.2	13.5	9.9	16%	17%
JK Cement	3,872	Buy	4,005	299.2	1,11,915	1,28,797	16.6	16.4	92.8	115.2	168.9	149.3	18.5	16.3	15%	11%
JK Lakshmi Cement	880	Accumulate	842	103.6	67,754	77,809	13.8	14.8	34.5	42.0	93.9	74.6	12.5	10.1	14%	10%
Nuvoco Vistas	371	Buy	414	132.5	1,14,451	1,25,332	14.4	15.8	4.7	11.2	80.7	77.1	10.6	8.4	4.3%	9%
Sagar Cements	270	Accumulate	251	35.3	24,075	26,677	13.9	16.4	(2.1)	9.8	64.9	64.4	14.6	11.1	8%	7%
Shree Cements	28,537	Buy	30,416	1,029.6	1,98,010	2,32,568	18.9	23.0	546.5	725.3	225.5	211.9	27.4	19.0	12%	21%
Star Cement	169	Accumulate	174	68.2	29,440	32,716	18.6	20.1	8.1	9.6	71.1	65.1	13.3	11.0	13%	13%
The Ramco Cements	1,049	Buy	1,248	247.1	1,01,347	1,14,417	17.2	18.0	25.7	36.9	153.8	151.6	16.4	13.7	11%	11%
Ultratech Cements	9,739	Buy	10,218	2,821.0	7,14,676	7,98,651	18.9	22.8	266.0	369.4	266.8	227.9	20.9	15.5	16%	17%

Source: Industry data, Nirmal Bang Institutional Equities Research

Exhibit 13: Coverage Companies – Return Profile

Company Name	Returns				Annualized Returns			
	1 Month	3 Month	6 Month	12 Month	2 Year	3 Year	5 Year	10 Year
NSE Nifty 500 Index	8.3%	7.0%	16.8%	17.9%	11.6%	18.8%	15.6%	14.7%
ACC Ltd	19.0%	5.9%	18.3%	-17.9%	-2.5%	10.7%	7.8%	7.2%
Ambuja Cements Ltd	21.4%	14.7%	10.9%	-12.9%	15.8%	27.5%	18.4%	11.0%
Birla Corp Ltd	9.4%	9.1%	16.4%	33.8%	-3.4%	23.6%	18.3%	18.9%
Dalmia Bharat Ltd*	12.6%	0.8%	10.2%	28.0%	12.4%	31.0%	NA	NA
HeidelbergCement India Ltd	20.0%	20.4%	27.4%	10.3%	-0.3%	2.6%	7.9%	19.9%
JK Cement Ltd	13.1%	17.6%	17.6%	22.8%	6.6%	25.7%	39.6%	34.1%
JK Lakshmi Cement Ltd	12.3%	32.1%	19.5%	-0.1%	18.9%	36.8%	26.3%	28.0%
Nuvoco Vistas Corp Ltd*	7.5%	-0.1%	4.6%	-6.9%	-16.1%	NA	NA	NA
Sagar Cements Ltd	3.9%	17.8%	21.2%	6.3%	3.1%	23.4%	14.9%	23.4%
Shree Cement Ltd	8.9%	8.8%	9.1%	17.9%	3.9%	6.2%	11.3%	20.6%
Star Cement Ltd*	8.4%	8.2%	17.7%	38.6%	31.5%	21.7%	10.2%	NA
Ramco Cements Ltd/The	5.4%	16.9%	12.3%	44.6%	3.2%	7.5%	10.9%	19.9%
UltraTech Cement Ltd	12.2%	12.8%	17.7%	34.8%	14.6%	24.8%	19.8%	18.4%

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Note: *Dalmia Bharat got listed on Jan 2019; Nuvoco Vistas got listed on Aug 2019; Star Cement got listed on Jun 2017

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