

25 September 2023

India | Equity research | Sector update

Cement

Improving price environment, sustainability remains key

Channel checks have yet again assumed huge importance given the surprise price surge in East India (announcement of INR 70/bag since the start of Sept'23). Our interaction with several sector experts and intermediaries across regions, over the past few days, point towards an improving cement price scenario. With East India as a flag bearer, we gather that: 1) North and Central India have recently attempted hikes of INR 10-15/bag and 2) there prevails a ripe expectation of a sharp spike in South and West India for Oct'23. Given the industry's poor track record to withstand sharp price hikes beyond a few months, sustainability of the recent hikes (in the face of upcoming festive season) remains key. Even as our fundamental sector concerns remain intact, the hikes may improve sector sentiment in the near term.

East India leading the pricing action

Region-wise takeaways from our interaction with sector experts:

East India: The region has seen two price hikes of INR 35/bag each in Sept'23 so far and ~80% of it has been absorbed by the market. While demand (mainly institutional) has taken a knock owing to the sudden spike, intermediaries appeared confident of pricing remaining broadly elevated. To arrest the temptation of a price drop, to meet month-end volume pressure, a hike of INR 35/bag has been announced from Oct'23. It's pertinent to note that the spike is on the back of a steady fall of >INR 50/bag since Jan'23 through Aug'23.

North India: The region has been the best price performer in 2023 with a steady marginal rise since Jan'23. As per regional experts, while the hikes in Jul'23 and Aug'23 could not materialise fully, the announcements averted the seasonal QoQ downslide in Q2FY24. The region has seen a recent hike of INR 10/bag with another hike of INR 10 in the offing soon.

Central India: For the first time in CY23, the region has seen a price hike announcement of INR 10-15/bag in Sept'23. While low demand due to heavy rains has led to only partial absorption, another hike of INR 10/bag is in the offing soon (mostly from Oct'23).

South and West India: Heightened competitive intensity among top peers has kept prices weak in South India. However, recent interaction with regional experts suggests ripe expectation of a sharp hike in the region. Given East India is an extended market for several South players, price recovery is only a 'matter-of-time' post the surge seen in East. As for West India, Gujarat takes a cue from Rajasthan while Maharashtra tracks South prices. Overall, prices in both the regions may rise from Oct'23.

Sustainability remains key, sentiment booster for sure

As per experts, the recent resurgence in fuel cost and supportive demand is stoking the price rise. In our view, sustainability of such hikes remains key given historically, sharp price hikes seldom sustain beyond a couple of months. While our fundamental sector concern (of industry-wide impact due to aggressive capacity addition by Adani Cement, including acquisitions) remains intact, the hikes may create a high base for realisation, and hence, a sentimental booster. We remain watchful of cement prices in the near term.

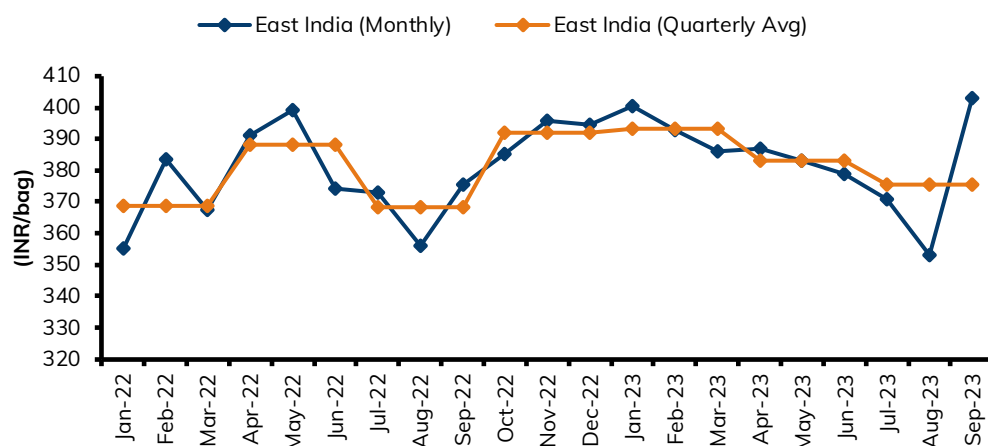
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Exhibit 1: East India price trend

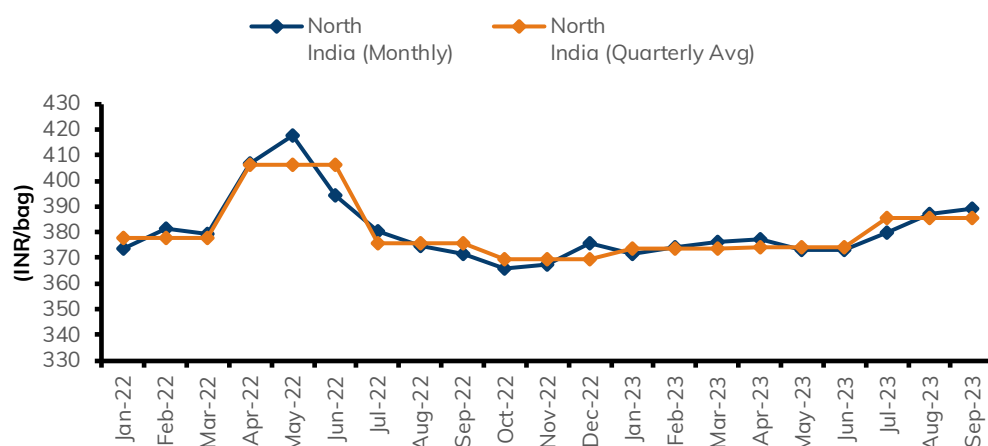


Source: Industry data, I-Sec research

Price rise is on the back of a sharp drop (~5%) seen in August'23 vs July'23.

While the average for Q2FY24 may be down ~1-2% QoQ, the exit prices may stay much higher. Proposed hike in Oct'23 may boost sentiment further for regional players.

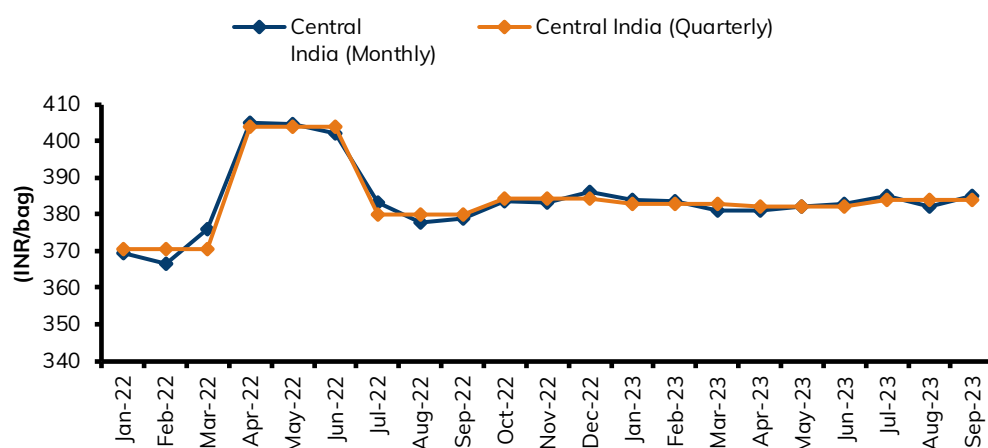
Exhibit 2: North India price trend



Source: Industry data, I-Sec research

The region's prices have been on a steady marginal rise. Recent attempts to hike prices will be positive to lift up the sentiment for the region further.

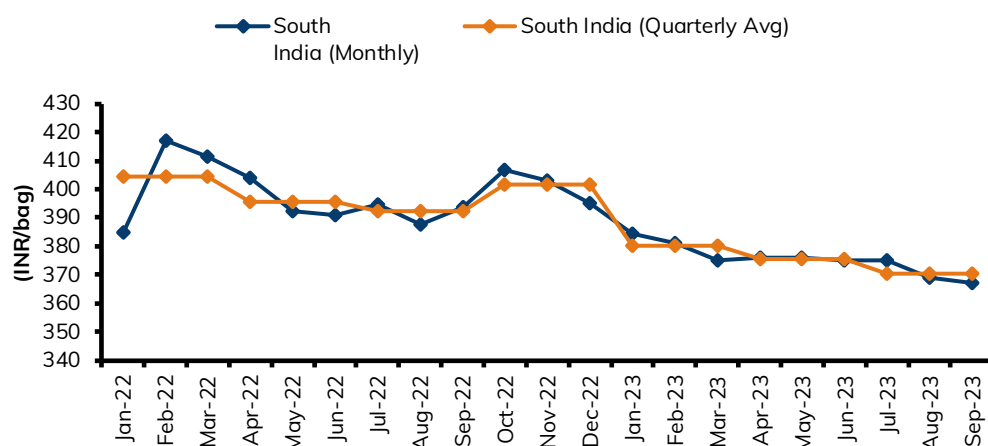
Exhibit 3: Central India price trend



Source: Industry data, I-Sec research

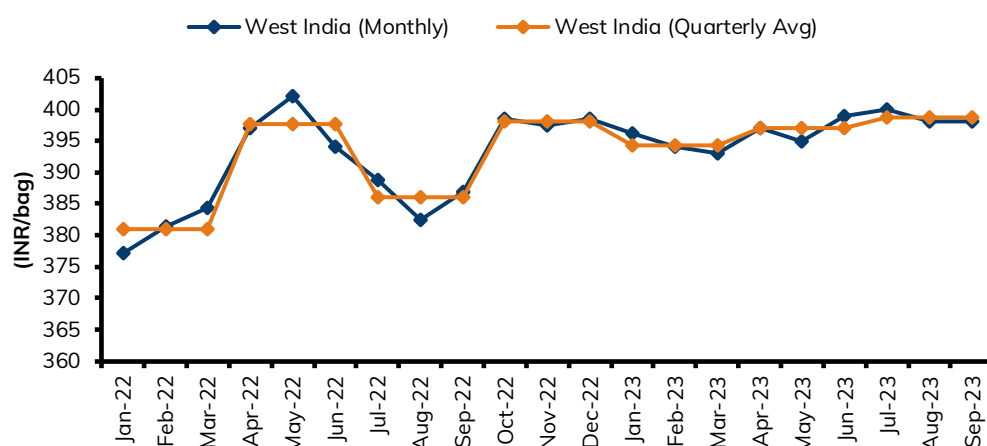
The region has attempted a hike for the first time in the calendar year 2023. Oct'23 hike is most likely to be absorbed by the market.

Exhibit 4: South India price trend



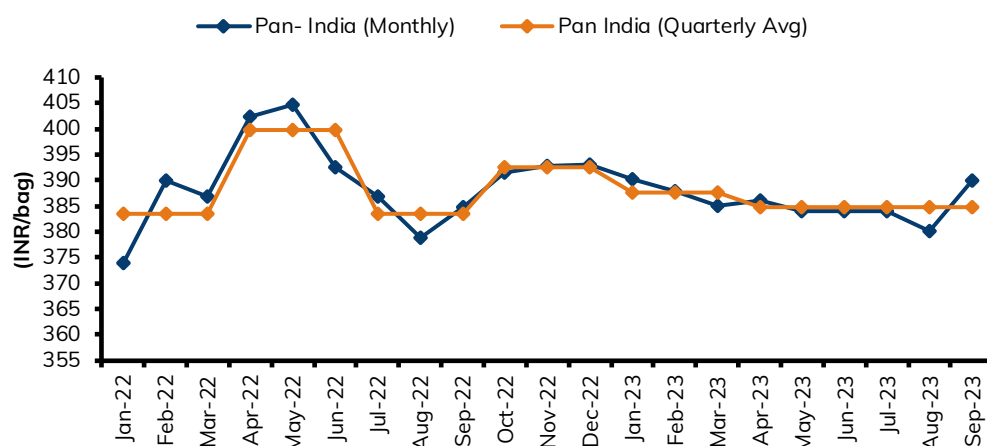
Source: Industry data, I-Sec research

Prices have been muted in South India but the region appears ripe for a sharp uptick hereon.

Exhibit 5: West India price trend


Source: Industry data, I-Sec research

Prices have been stable to marginally weak in the region. Proposed hikes in nearby regions may lift up the pricing sentiment in West India as well.

Exhibit 6: All India price trend


Source: Industry data, I-Sec research

We estimate all India average prices to be broadly flat QoQ in Q2FY24. However, the improving pricing environment may lift up the base for Q3FY24.

Exhibit 7: Our current coverage recommendation and valuation matrix

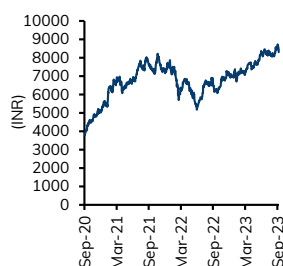
Company	Rating	TP (INR/sh)	P/E (x)		EV/EBITDA (x)		EV/te (USD)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
UTCEM	REDUCE	7,311	33	30	18	17	205	174
SRCM	REDUCE	21,534	44	36	22	19	203	208
ACEM	ADD	512	25	22	15	14	222	213
ACC	ADD	2,338	22	19	11	10	100	96
JKCE	BUY	3,856	35	27	15	12	144	126
ICEM	SELL	122	NM	35	20	15	84	84
Orient Cement	REDUCE	137	16	13	8	8	61	70
GRASIM	ADD	1,933	14	13	10	7	-	-

Source: I-Sec research

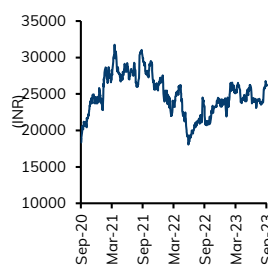
We are watchful of the price trends. If the hikes come through and sustain, there exists a potential earnings upgrade risk to our estimates.

Price charts

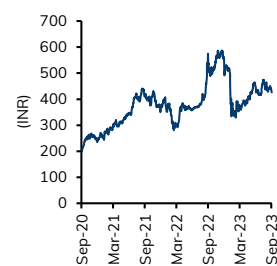
UltraTech Cement



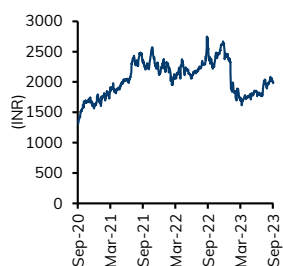
Shree Cement



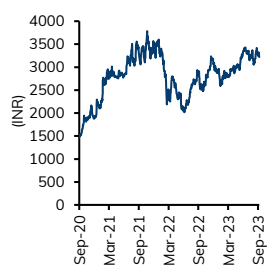
Ambuja Cement



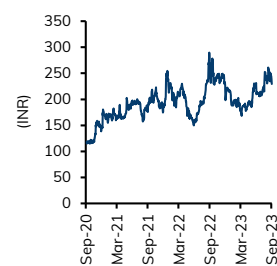
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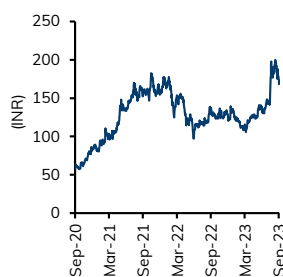
JK Cement



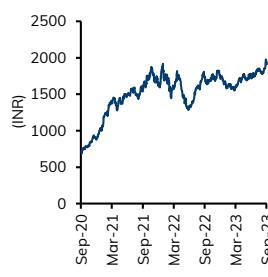
India Cement



Orient Cement



Grasim



Source: Bloomberg

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