

Cement

Prices, retail sales hold up despite COVID

Despite the ongoing COVID situation, cement demand recovered MoM in June, driven by strong traction in retail sales (semi-urban/rural areas) while non-trade sales continued to decline. Our channel checks suggest sales in north/central/east regions printed flattish to marginal growth. Even in the south and west India, the volume decline rate moderated to ~20-30% YoY in June vs ~40% in May. These factors imply that 1QFY21 sales would decline ~20% YoY in the north and ~40% in the south. Cement prices mostly held up in June, bolstering 1Q realization YoY across the south (+11%), north (+6%), and central (+2%) India. West and east prices are down ~1% and 2% YoY respectively. We believe that falling energy costs could further cushion the impact of dwindling demand on profitability.

- Resilient demand in the northern half of India:** As per our channel checks, cement sales in the north/central/east regions fell 20-25% YoY in 1QFY21. It implies that demand was fairly strong (flattish to marginal growth) in the month of June! Lower impact of Covid in rural/semi urban areas along with better availability of incoming labourers led to healthy demand in these regions. However, the fall in 1Q sales in the south/west regions was much sharper at ~45%/30% YoY on overall weak demand in the south and larger non-trade share in Maharashtra.
- Prices cool off marginally MoM in Jun'20; strong gains QoQ:** On the significant price increase taken in April/May, there was a marginal correction MoM across all regions. Trade prices in north/central/east regions cooled off 4/2/2% MoM in June 2020. East prices remained flat MoM. Prices in south moderated 7% MoM (after a spike in April/May). As prices remained firm across all the three months, 1QFY21 trade prices are up 6/5/9/4/26% QoQ.
- North/central prices remain buoyant YoY, south flares up:** North and central prices further firmed up 6% and 2% YoY respectively on healthy retail demand. South prices buoyed the most (+11% YoY) as companies focused on remunerative pricing amidst a sharp volume decline. Despite the recent hikes, east/west prices are expected to be down 2/1% YoY. Weak YoY pricing in Maharashtra drags west realization down. In the east, pricing is higher YoY in the NE region and in Chhattisgarh (+7% YoY).
- Falling energy cost:** Petcoke prices (both domestic and imported) cooled off 4% QoQ, leading to a 20-30% YoY decline. Imported coal prices fell sharply during 1Q: South African coal was down 25%/11% QoQ/YoY, and Indonesian coal fell 10%/15% QoQ/YoY. Despite sharp slump in crude prices, the Indian government's sharp tax hikes in June elevated diesel prices by 1/1% YoY/QoQ.

Trade cement price trend

Rs/bag	Jun-20	MoM (%)	YoY (%)	1QFY21	QoQ (%)	YoY (%)
North	348	(4.1)	1.5	358	6.4	6.2
Central	361	(2.4)	0.6	366	5.2	2.2
East	341	(2.4)	(0.4)	343	8.5	(2.4)
West	346	(0.4)	(0.4)	345	4.4	(0.5)
South	390	(6.8)	7.8	411	26.1	11.1
Pan India	357	(3.4)	1.9	364	10.0	3.4

Source: HSIE Research

COMPANY	RATING	TP (Rs.)
UltraTech	BUY	4,720
Shree Cement	REDUCE	17,900
Ambuja Cem	BUY	210
ACC	BUY	1,440
Ramco Cem	ADD	685
Dalmia Bharat	BUY	930
JK Cement	BUY	1,425
Star Cement	BUY	115
JK Lakshmi	BUY	370
Orient Cement	BUY	85
Deccan Cem	BUY	370

Rajesh Ravi

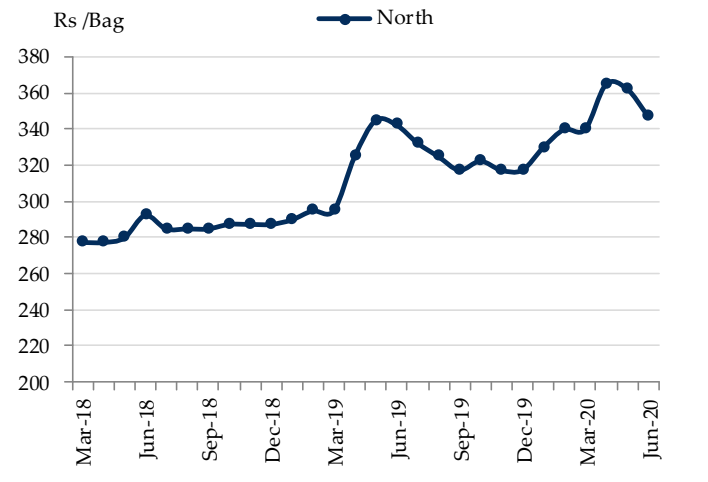
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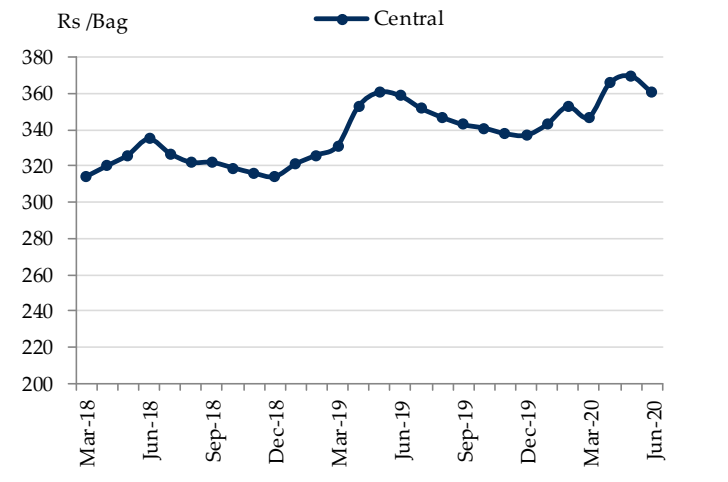
Region-wise price trends

Trade prices to surge 6/6% QoQ/YoY in the north in 1QFY21



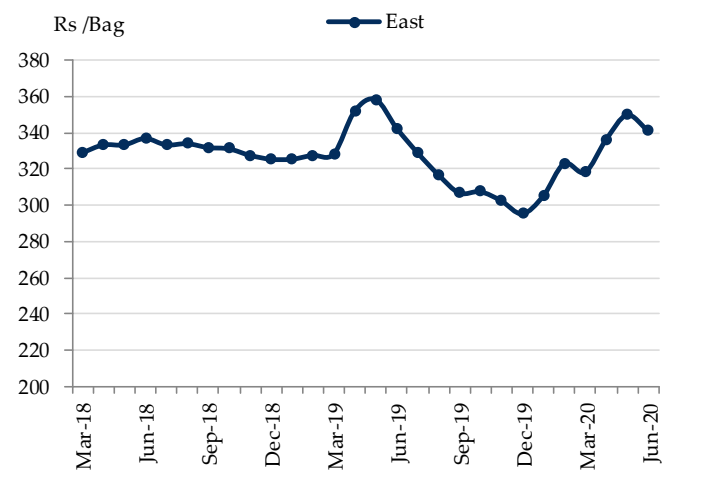
Source: HSIE Research

Even the central region's prices to firm up 5/2% QoQ/YoY during 1QFY21



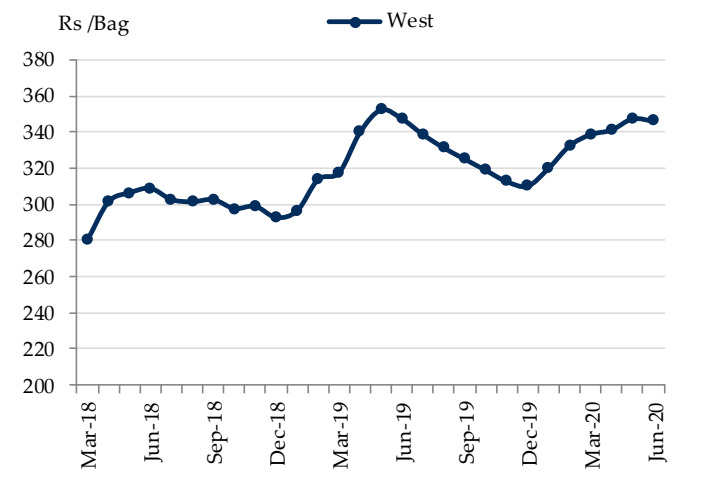
Source: HSIE Research

Despite a sharp 9% QoQ recovery, we expect it to fall 2% YoY in the region



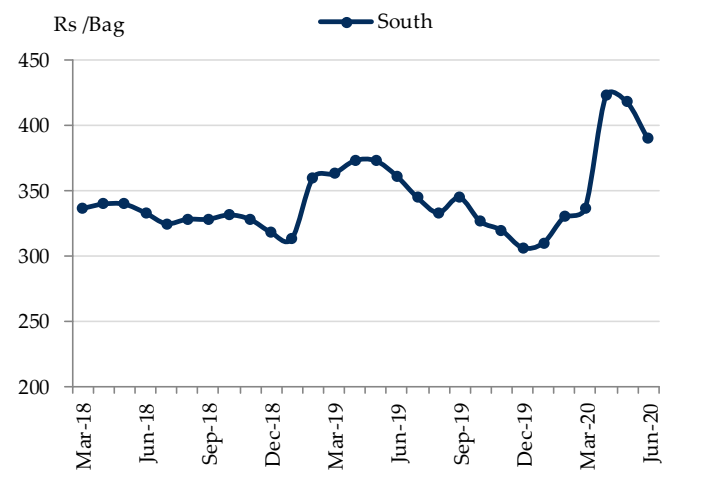
Source: HSIE Research

Continued price recovery in the past six months to drive flat realization YoY in 1Q



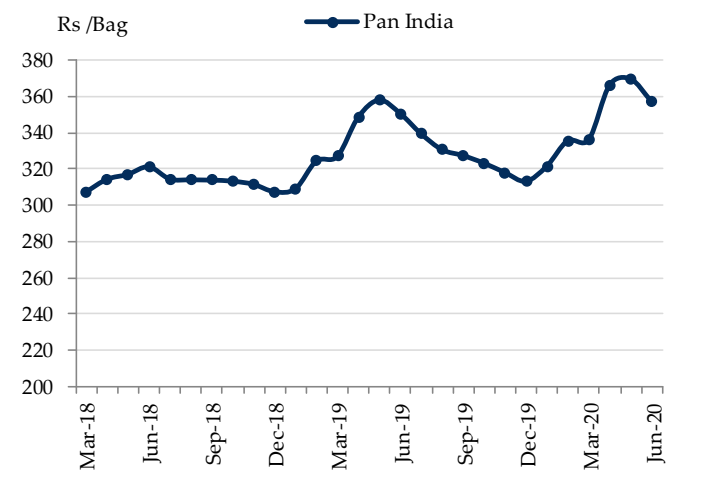
Source: HSIE Research

Despite ~Rs 40/bag fall in Jun from Apr levels, prices firmed up +26/+11% QoQ/YoY (AP/T major gainer)



Source: HSIE Research

Thus, the average pan India price firmed up +10/3% QoQ/YoY in 1Q

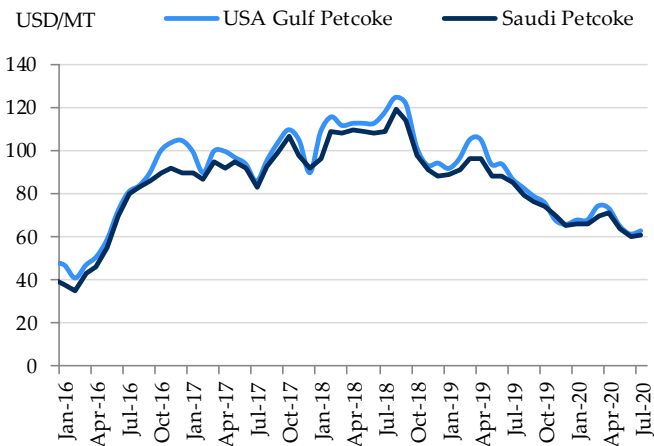


Source: HSIE Research

Coal/petcoke price trending downwards

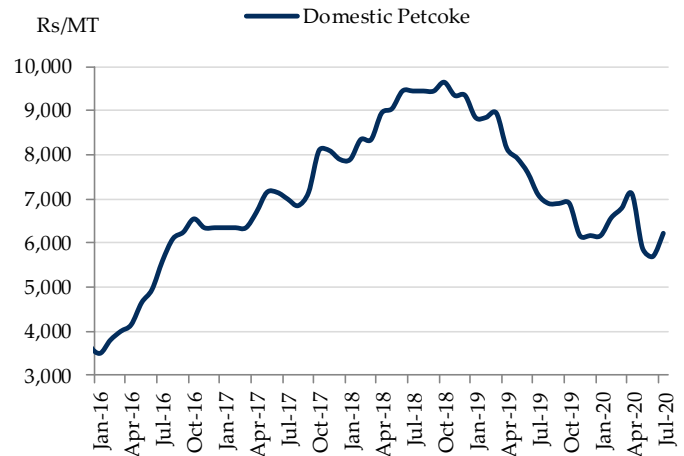
Owing to the global slowdown for fuel demand, prices for coal/petcoke continue to fall and are currently hovering close to a four-year low. Imported petcoke prices in 1QFY21 are down 30% YoY and domestic petcoke price (from RIL Ltd) is down ~20% YoY. Imported coal prices are also down 10-15% YoY in 1QFY21.

Global petcoke prices on a continuous slide since August 2018



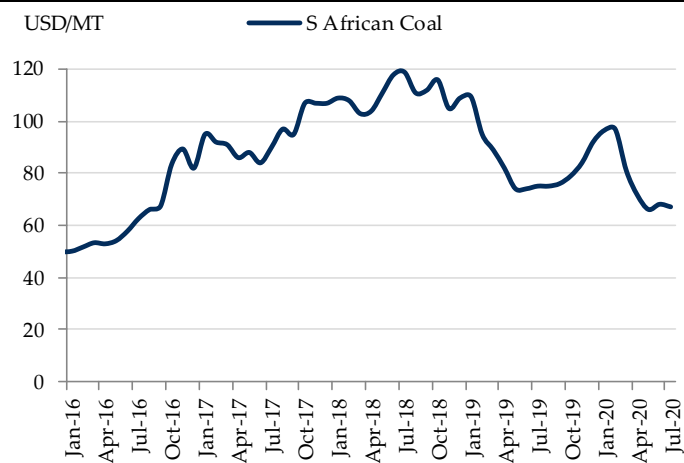
Source: Industry, HSIE Research

Even domestic petcoke (RIL supplied) prices at multi-year low



Source: Industry, HSIE Research

South African coal (6000 NAR FOB) price has fallen to 3.5 year low on weak demand



Source: Industry, HSIE Research

Indonesian thermal coal (5800 GAR CNF) has fallen sharply in the past three months to four year low

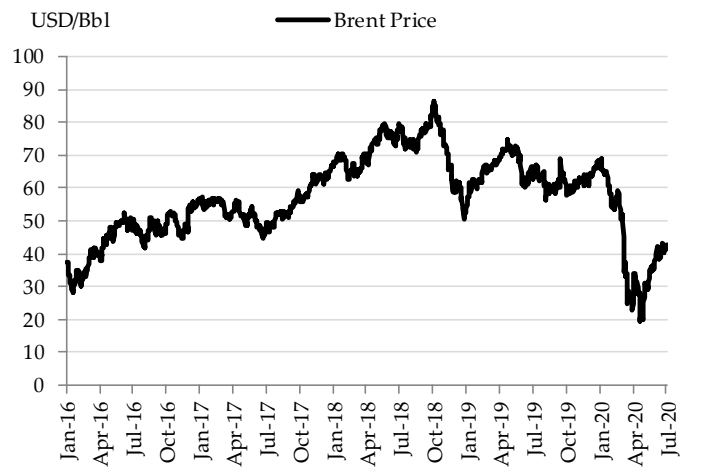


Source: Industry, HSIE Research

Diesel prices trend

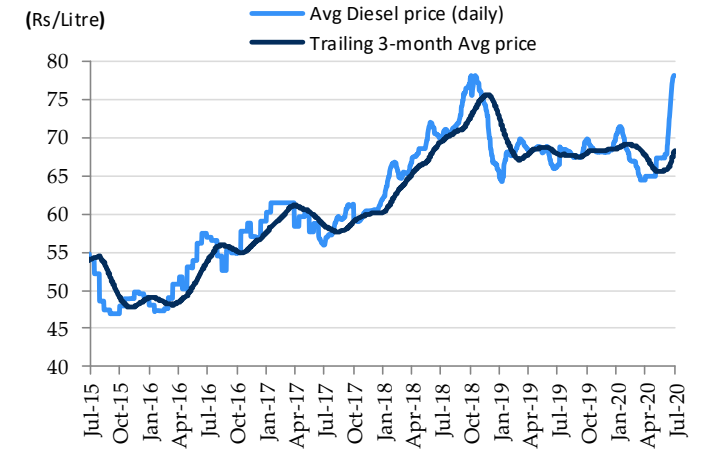
While crude prices fell 32%/47% YoY in 1QFY21, diesel prices in India were up 1%/1% QoQ/YoY, driven by tax hikes by Indian government— mainly in Jun 2020.

Brent crude price fell 46/51% QoQ/YoY on global demand slump



Source: Bloomberg, HSIE Research

Despite crude price slump, tax hikes by government drove up diesel prices in June-20



Source: Industry, HSIE Research

Peer Set Valuations for our coverage universe

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	EV/EBITDA			EV/MT (Rs bn)			Net D:E (x)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
UltraTech Cement	1,059	3,857	BUY	4,720	13.6	15.2	12.4	11.08	10.59	9.96	0.4	0.3	0.2	10.4	7.6	9.5
Shree Cement	796	22,850	REDUCE	17,900	21.3	24.8	20.3	18.18	17.73	16.29	(0.3)	(0.3)	(0.3)	13.9	7.9	9.7
Ambuja Cements	383	193	BUY	210	10.2	11.4	9.7	7.40	6.99	6.98	(0.7)	(0.7)	(0.7)	6.8	5.3	6.0
ACC	246	1,311	BUY	1,440	8.3	11.3	9.3	6.28	6.43	6.49	(0.4)	(0.4)	(0.3)	11.6	8.4	10.6
Ramco Cements	155	657	ADD	685	16.2	16.2	11.8	9.94	9.50	8.49	0.6	0.6	0.3	12.8	10.7	12.2
Dalmia Bharat	139	720	BUY	930	8.5	11.1	8.1	6.84	6.00	4.73	0.4	0.4	0.3	2.1	(1.5)	1.3
JK Cement	113	1,466	BUY	1,425	11.7	13.1	10.6	8.79	8.32	8.46	0.9	0.9	0.8	17.4	11.3	15.1
Star Cement	37	89	BUY	115	8.8	8.9	7.1	9.67	8.17	7.17	(0.1)	(0.1)	(0.1)	15.4	13.7	16.1
JK Lakshmi	33	282	BUY	370	6.4	8.3	7.1	3.70	3.69	3.89	0.6	0.5	0.6	16.2	9.0	11.4
Orient Cement	14.3	70	BUY	85	6.8	7.6	6.3	3.27	3.07	3.08	1.1	0.9	0.8	8.0	4.6	9.6
Deccan Cements	4.1	296	BUY	370	5.1	4.8	4.8	1.78	1.58	2.31	(0.0)	(0.1)	0.2	10.1	7.7	12.3

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY19/CY20E/21E resp

Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: >10% Downside return potential

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