

Cement

Cost pressures ease amid price hikes

Our channel checks suggest industry volumes are likely to report flat to low single-digit volume growth YoY (despite high base) during Aug'22 to ~29mnte, implying a relatively strong pan-India clinker utilisation at ~70% this monsoon. MoM volumes may be down 6-8%, in-line with seasonality. On the pricing front, average pan-India prices fell ~2% MoM in Aug'22 largely due to 4% MoM dip in East India. However, prices were hiked by Rs15-20/bag (up 4-4.5%MoM) in East and West India (in the non-trade segment) w.e.f. 6th Sep'22 with possibility of a further hike of Rs15/bag from mid-Sep'22 in East India. Spot international petcoke prices have slightly increased to US\$196/te (CIF) in Sep'22 (up ~3% MoM), though it has corrected ~30% from peak in Apr'22. Similarly, domestic petcoke prices declined ~30% from its peak in Jun'22 to Rs16,000/te in Sep'22. Assuming fuel prices sustain at current levels (or correct further) coupled with price hikes / current price hike absorption, we expect risk-reward to turn favourable in the medium-term perspective as margins / consensus earnings downgrade has likely bottomed out. UTCEM and SRCM remain our top picks. We also like JKCE and JKLC. Key risks: price rollback and cost escalations.

- ▶ **Industry volumes likely to report flat to low single-digit growth YoY** despite the high base of Aug'21, which was up >35% YoY. On regional basis, volumes declined by high single-digit YoY in West and Central India due to heavy rainfall while East and South India are likely to report low to mid single-digit growth led by robust demand in the infrastructure segment. Volumes in North India were broadly flat YoY. Further, cumulative rainfall till date has been ~5% above normal, which we believe augurs well for IHB demand from H2FY22 onward.
- ▶ **Pan-India average prices corrected by ~2% MoM in Aug'22** as prices fell – the steepest fall being in North and East India by 3% and 4% respectively followed 1.5% dip in South India. However, prices were increased by Rs15-20/bag (up 4-4.5% MoM) in East and West India (in the non-trade segment) w.e.f. 6th Sep'22 with possibility of a further hike of Rs15/bag in mid-Sep'22 in East India. Checks in North and Central regions suggest likelihood of price hikes from the first week of Oct'22.
- ▶ **Fuel cost pressures ease; more sustained reduction required:** Despite average international petcoke prices slightly inching up to US\$196/te (CIF) in Sep'22-TD (up ~3% MoM), it has corrected ~30% from its peak in Apr'22 – and is now up only 10% YoY. Similarly, domestic petcoke prices are down by ~30% from peak (Jun'22) to Rs16,000/te. Further, spot Indonesian coal is now available at US\$168/te, which is 13% lower from peak in Jun'22. Along with Russian coal (US\$165/te CFR), Venezuelan petcoke is also available at US\$128/te (CFR), which we believe may result in fuel cost/te declining by ~Rs300/te QoQ from Q3FY23 onward.

Valuation summary

Company	Rating	TP (Rs/sh)	P/E (x)			EV/EBITDA (x)			EV/t (USD/t)		
			FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
UTCEM	BUY	8,500	34.9	34.1	22.2	17.3	16.8	12.1	199	178	170
SRCM	BUY	25,500	38.0	45.7	28.1	20.9	20.9	14.6	196	192	178
DALBHARA	ADD	1,750	27.3	46.8	26.2	12.6	14.3	10.5	111	117	98
NUVOCO	BUY	465	NM	NM	23.7	12.1	12.7	8.3	97	97	91
TRCL	ADD	830	31.8	51.3	22.9	16.7	19.6	12.3	140	142	132
JKCE	BUY	3,170	32.5	32.6	22.2	17.0	16.2	11.8	197	161	157
ICEM	SELL	130	93.6	(213.4)	29.8	20.4	51.5	13.7	84	86	83
JKLC	BUY	630	12.0	14.4	10.0	6.9	7.4	5.7	58	60	59
ORCMNT	ADD	130	9.4	13.4	9.2	4.6	6.2	5.7	40	41	48
PRSMJ	ADD	126	79.7	38.5	18.7	14.9	12.2	8.3	105	105	87
HEIM	HOLD	184	18.9	22.9	13.3	10.1	11.7	7.4	84	81	77
GRASIM	ADD	1,725	25.3	19.0	14.8	14.9	11.1	11.2	-	-	-

Source: I-Sec research

Research Analysts:

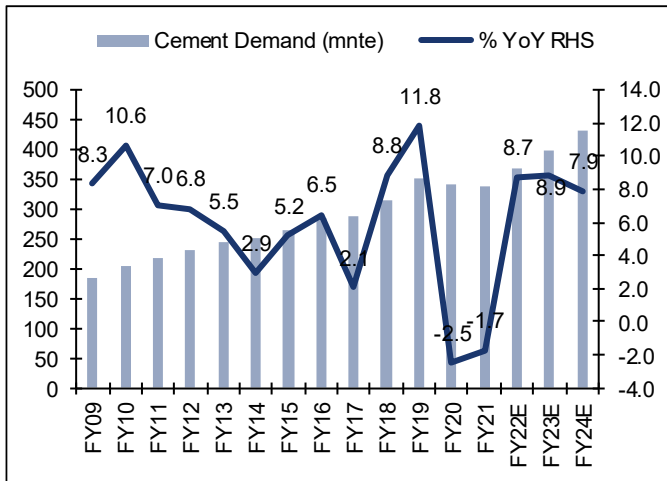
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- ▶ **Industry average EBITDA/te could still decline in Q2FY23, turn broadly flat in Q3FY23 and start to inch up from Q4FY23** – both on QoQ and YoY basis (assuming the spread between cement and fuel prices sustains or improves from current levels). While near-term stock price performance would hinge on the said spread, we believe risk-reward is favourable in the medium-term perspective as margins / consensus earnings downgrades have likely bottomed out. Although >100mnte capacities are announced to be added over the next 3-4 years, incremental demand, production discipline and receding cost pressures may allow the industry to revert to FY21 EBITDA/te by FY24E-FY25E, in our view.

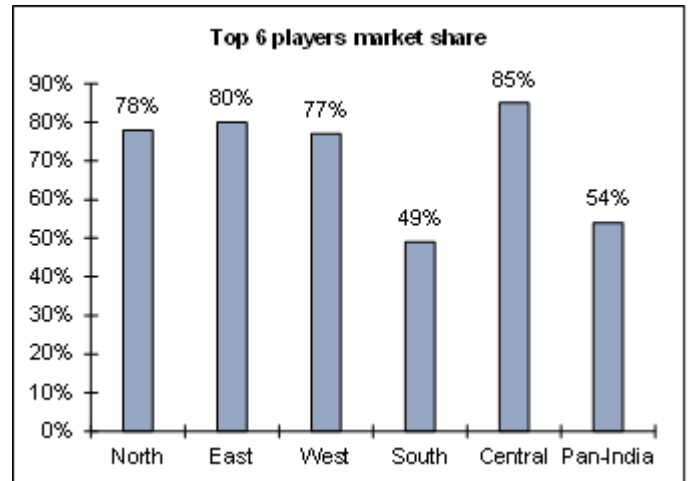
Key tables and charts

Chart 1: Demand has grown at ~6% CAGR over past 10 years; similar trend expected to continue



Source: I-Sec research

Chart 2: Increasing industry consolidation to aid firm pricing



Source: I-Sec research

Table 1: Average pan-India cement utilisation to increase 300bps over FY22-FY24E

Utilisations (%)	FY20	FY21	FY22	FY23E	FY24E
North	78	84	82	86	85
Central	81	81	76	77	74
East	82	88	76	78	78
West	74	71	69	67	68
South	60	52	56	61	64
All-India	72	73	70	72	73

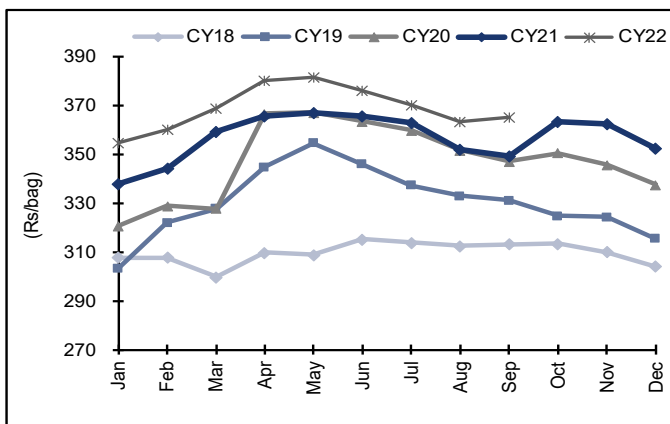
Source: I-Sec research

Table 2: Clinker utilisation to inch up to ~80% in FY24E

	FY21	FY22	FY23E	FY24E
North, Central and East (combined)				
Clinker capacity	165	169	176	197
Clinker utilisation*	87	82	85	83
South and West (combined)				
Clinker capacity	169	175	178	178
Clinker utilisation*	63	66	70	75
All-India				
Clinker capacity	334	345	354	375
Clinker utilisation*	77	74	78	79

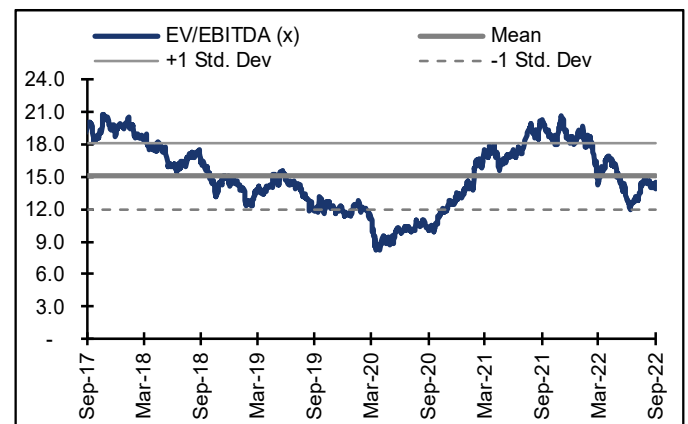
Source: I-Sec research

Chart 3: Average pan-India prices up ~3% YoY in Aug'22



Source: Industry data, I-Sec research

Chart 4: UTCEM: EV/E – trading just below long term mean



Source: Bloomberg, I-Sec research

Table 3: Average pan-India cement utilisation to increase 300bps over FY22-FY24E

Utilisations (%)	FY20	FY21	FY22	FY23E	FY24E
North	78	84	82	86	85
Central	81	81	76	77	74
East	82	88	76	78	78
West	74	71	69	67	68
South	60	52	56	61	64
All-India	72	73	70	72	73

Source: I-Sec research, based on effective capacity operational

Table 4: Clinker utilisation to inch up to ~80% in FY24E

(in mnte)	FY20	FY21	FY22	FY23E	FY24E
North, Central and East (combined)					
Clinker capacity	159	165	169	176	197
Clinker utilisation*	83	87	82	85	83
South and West (combined)					
Clinker capacity	163	169	175	178	178
Clinker utilisation*	70	63	65	70	75
All-India					
Clinker capacity	322	334	345	354	375
Clinker utilisation*	77	77	74	78	79

Source: I-Sec research, *based on effective capacity operational (%)

Average pan-India cement / clinker utilisation is likely to increase to 73% / 79% by FY24E**Table 5: North – utilisation to reach 85% in FY24E**

(in mnte)	FY20	FY21	FY22	FY23E	FY24E
Installed capacity	105	107	109	112	119
Effective capacity	101	99	108	109	117
YoY chg (%)	(2.3)	(1.8)	9.3	1.0	7.3
Volumes	78	83	88	94	99
Utilisation (%)	78	84	82	86	85
YoY change (%)	1.0	6.5	6.0	6.0	6.0

Table 6: East – utilisation to remain >75% despite higher capacity additions

(in mnte)	FY20	FY21	FY22	FY23E	FY24E
Installed capacity	93	100	110	121	130
Effective capacity	89	91	104	113	123
YoY chg (%)	2.7	1.9	15.0	8.3	8.9
Volumes	73	80	79	88	96
Utilisation (%)	82	88	76	78	78
YoY change (%)	1.0	9.0	(1.0)	11.0	10.0

Table 7: Central – utilisation to dip to ~75% owing to capacity additions

(in mnte)	FY20	FY21	FY22	FY23E	FY24E
Installed capacity	65	65	69	75	82
Effective capacity	57	61	65	70	80
YoY chg (%)	(0.9)	7.1	6.6	8.2	13.4
Volumes	46	49	49	54	59
Utilisation (%)	81	81	76	77	74
YoY change (%)	0.4	7.3	(0.6)	9.7	9.7

Table 8: West – utilisation to remain range-bound over FY21-FY24E

(in mnte)	FY20	FY21	FY22	FY23E	FY24E
Installed capacity	64	65	76	80	81
Effective capacity	62	59	69	77	80
YoY chg (%)	4.0	(4.7)	15.9	11.7	3.8
Volumes	46	42	48	52	55
Utilisation (%)	74	71	69	67	68
YoY change (%)	(2.0)	(8.0)	13.0	8.0	6.0

Table 9: South – utilisation to reach 64% by FY24E

(in mnte)	FY20	FY21	FY22	FY23E	FY24E
Installed capacity	171	175	176	178	185
Effective capacity	166	160	175	177	181
YoY chg (%)	0.5	(3.3)	9.3	1.1	2.4
Volumes	99	83	98	108	116
Utilisation (%)	60	52	56	61	64
YoY change (%)	(9.0)	(16.5)	18.0	10.0	8.0

Source: Industry data, I-Sec research

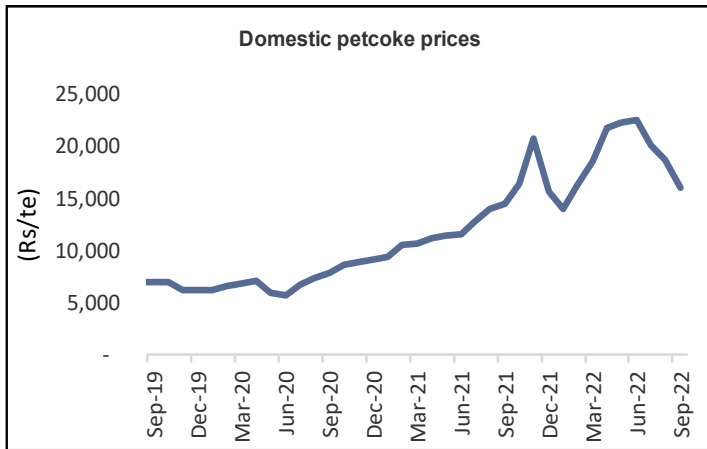
Table 10: Pan-India utilisation to reach 73% by FY24E

(in mnte)	FY20	FY21	FY22	FY23E	FY24E
Installed capacity	498	511	539	564	597
Effective capacity	474	470	521	546	580
YoY chg (%)	0.6	(1.0)	10.9	4.8	6.3
Volumes	343	337	362	394	425
Utilisation (%)	72	72	69	72	73
YoY change (%)	(2.6)	(1.5)	7.2	8.9	7.9

Softness in fuel prices continues, particularly in pet coke

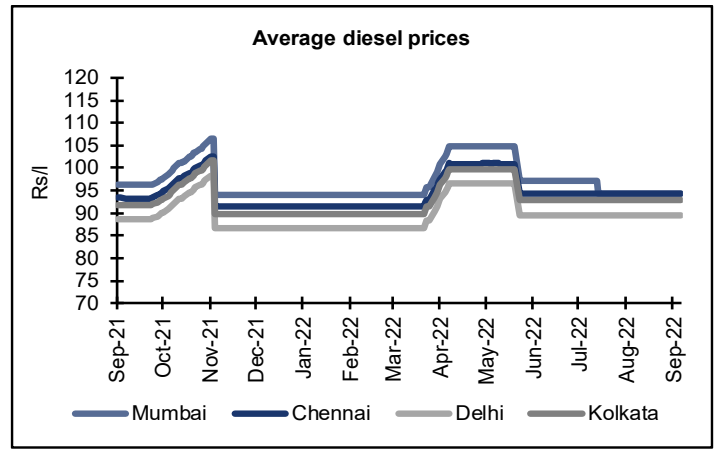
Fuel costs pressures ease, more sustained reduction required: Despite average international petcoke prices slightly inching up to US\$196/te (CIF) in Sep'22-TD (up ~3% MoM), it has corrected ~30% from its peak in Apr'22 – and is now up only 10% YoY. Similarly, domestic petcoke prices are down by ~30% from peak (Jun'22) to Rs16,000/te. Further, spot Indonesian coal is now available at US\$168/te, which is 13% lower from peak in Jun'22. Along with Russian coal (US\$165/te CFR), Venezuelan petcoke is also available at US\$128/te (CFR), which we believe may result in fuel cost/te declining by ~Rs300/te QoQ from Q3FY23 onward.

Chart 5: Spot domestic petcoke prices have softened by ~15% MoM in Sep'22-TD



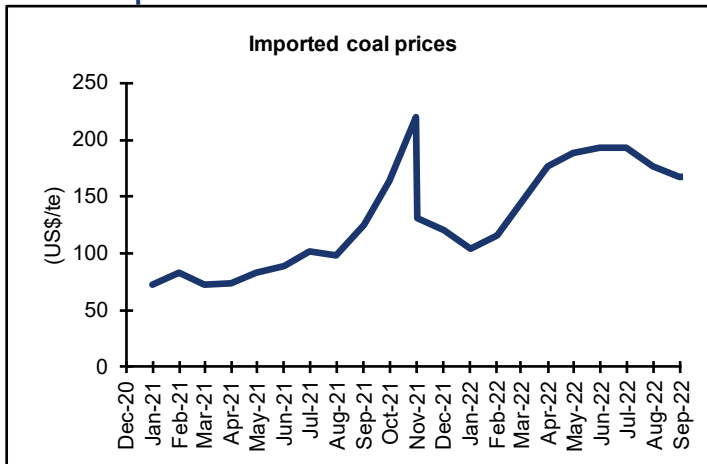
Source: Industry data, I-Sec research

Chart 6: Diesel prices have dipped ~0.5% each MoM and YoY in Aug'22



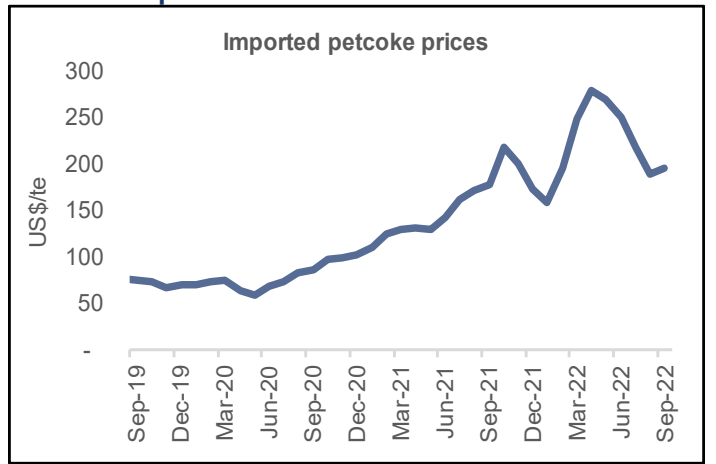
Source: Bloomberg, I-Sec research

Chart 7: Indonesian coal was flat MoM but up ~2.5% YoY in Sep'22-TD



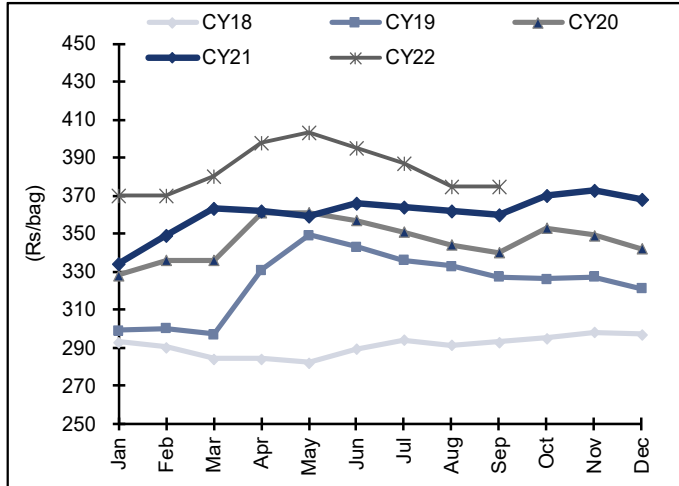
Source: Bloomberg, I-Sec research

Chart 8: Imported pet coke prices have declined ~30% from peak



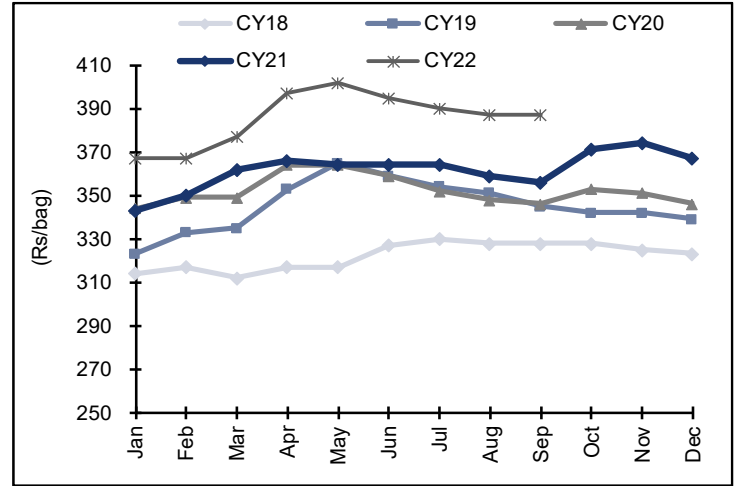
Source: Industry data, I-Sec research

Chart 9: North region prices up ~4% YoY in Aug'22



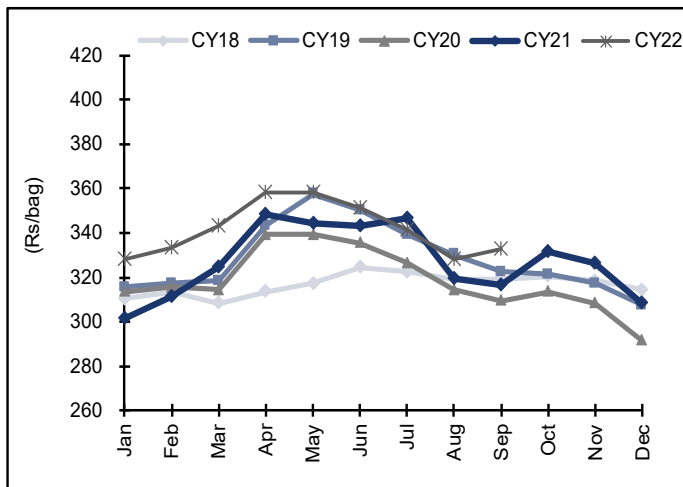
Source: Industry data, I-Sec research

Chart 10: Central India prices up ~8% YoY in Aug'22



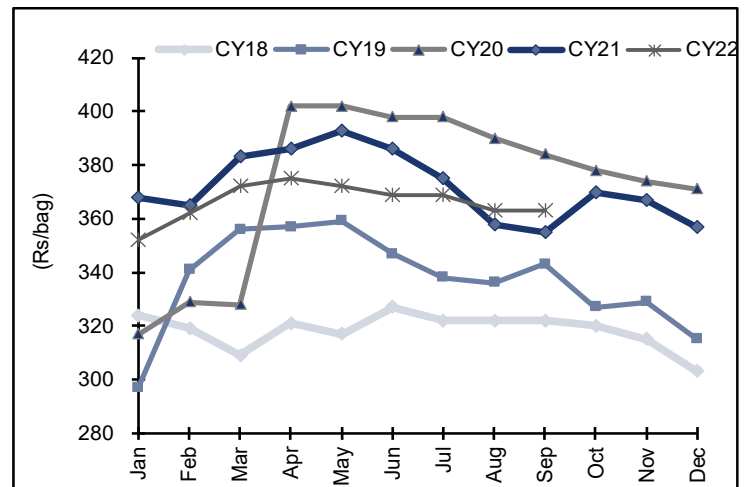
Source: Industry data, I-Sec research

Chart 11: East region prices up ~3% YoY in Aug'22



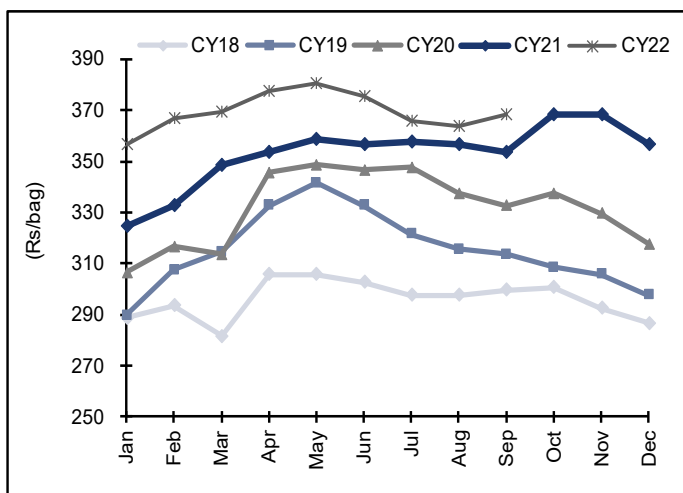
Source: Industry data, I-Sec research

Chart 12: South region prices up ~1% YoY in Aug'22



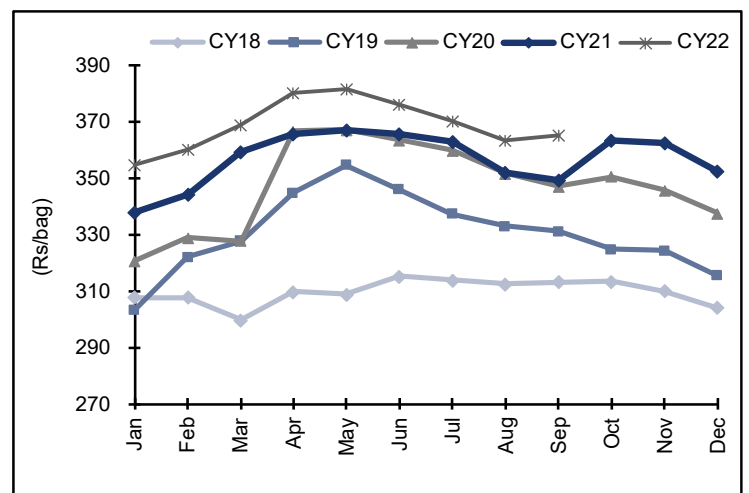
Source: Industry data, I-Sec research

Chart 13: West region prices up 2% YoY in Aug'22



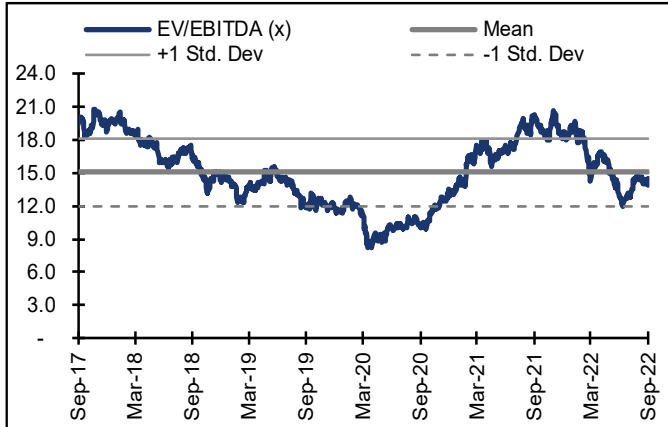
Source: Industry data, I-Sec research

Chart 14: All-India prices up ~3% YoY in Aug'22



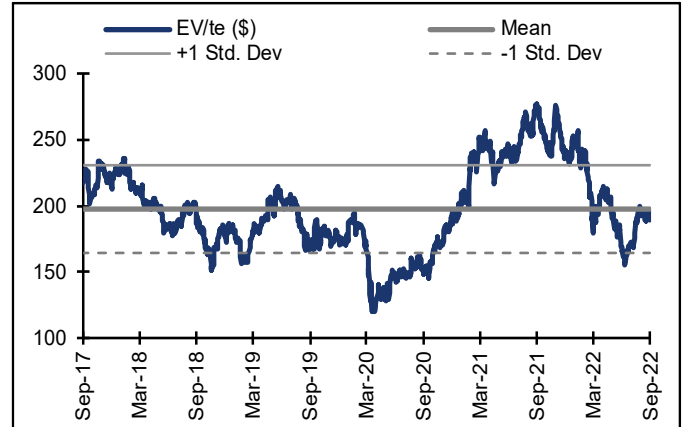
Source: Industry data, I-Sec research

Chart 15: UTCEM: EV/E – trading just below mean



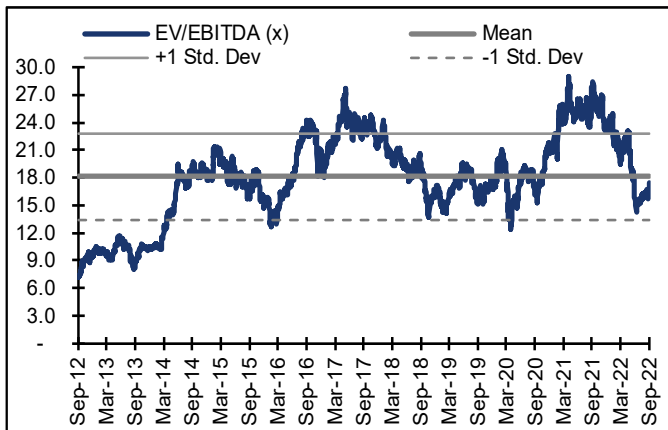
Source: Industry data, I-Sec research

Chart 16: UTCEM: EV/te – trading at long term mean



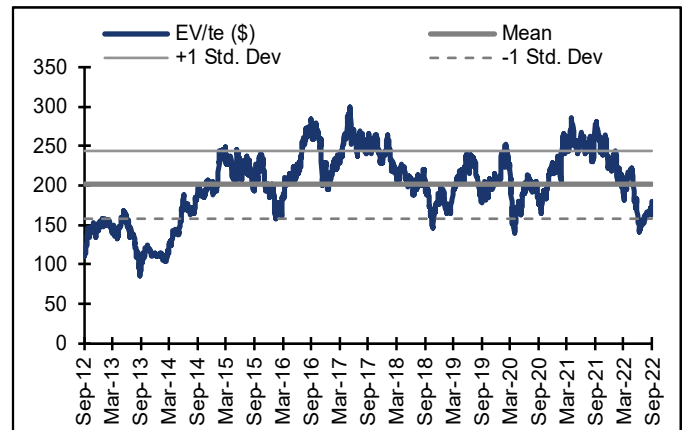
Source: Industry data, I-Sec research

Chart 17: SRCM: EV/E trading just below mean



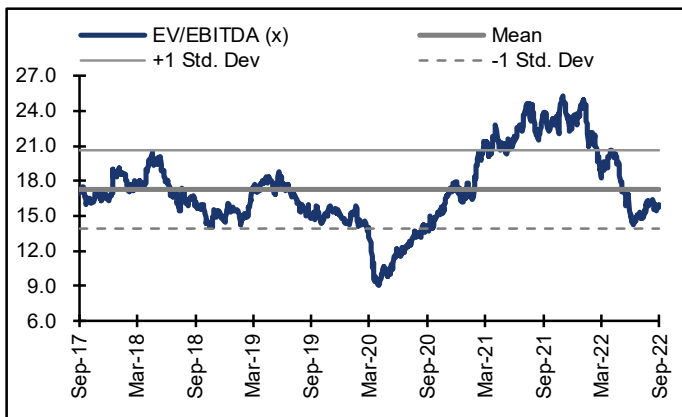
Source: Industry data, I-Sec research

Chart 18: SRCM: EV/te – trading above -1 S.D



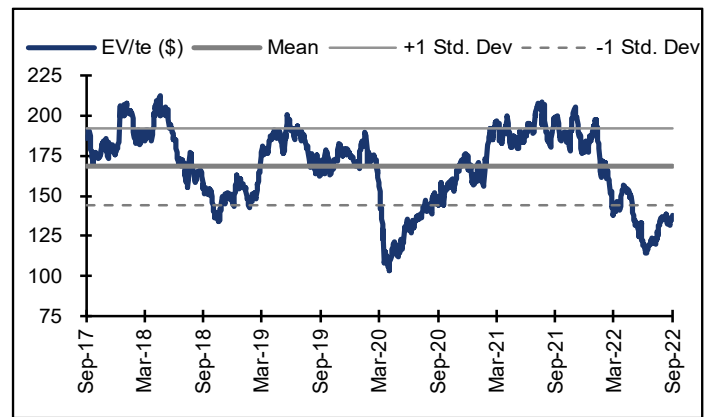
Source: Industry data, I-Sec research

Chart 19: TRCL: EV/E trading below mean



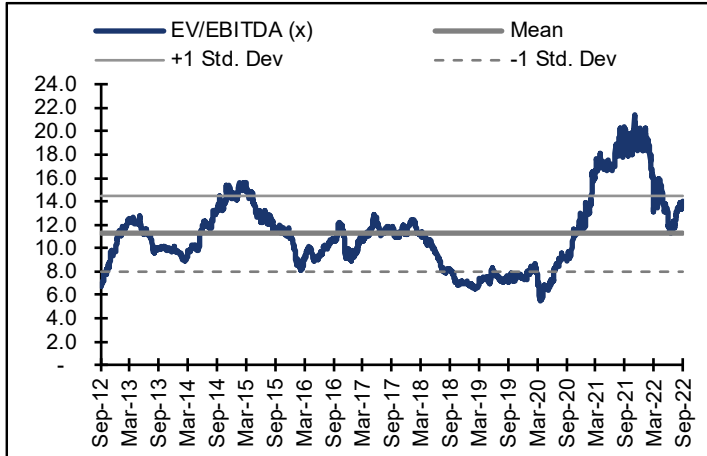
Source: Industry data, I-Sec research

Chart 20: TRCL: EV/te – trading below -1 S.D



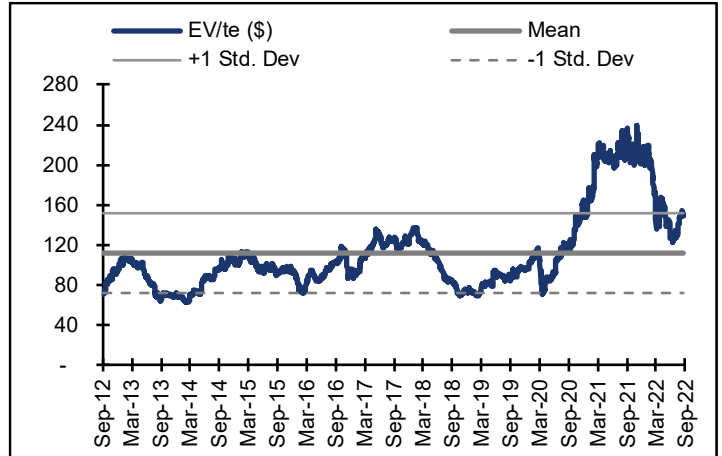
Source: Industry data, I-Sec research

Chart 21: JKCE: EV/E trading just below +1 S.D



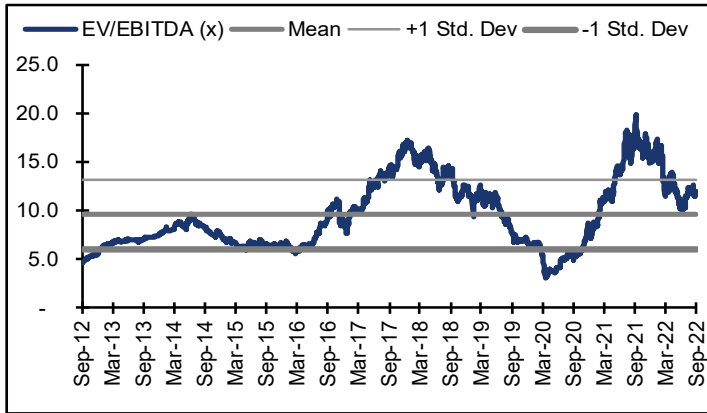
Source: Industry data, I-Sec research

Chart 22: JKCE: EV/te – trading at +1 S.D



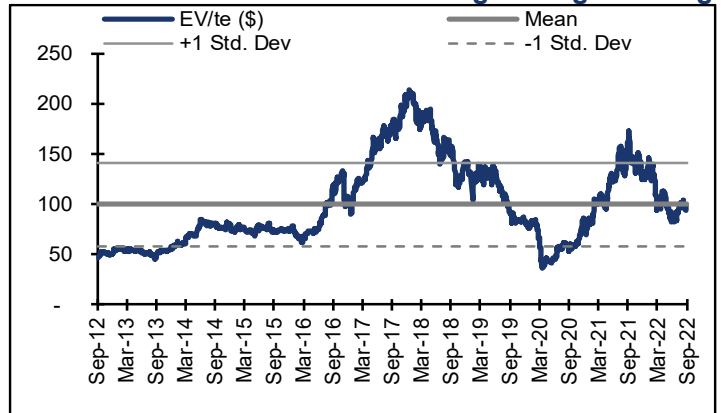
Source: Industry data, I-Sec research

Chart 23: DALBHARA: EV/E close to +1 S.D



Source: Industry data, I-Sec research

Chart 24: DALBHARA: EV/te: trading at long term avg



Source: Industry data, I-Sec research

Table 11: Volume growth assumptions over FY20-FY24E

	Total volumes (mnte)					Growth YoY (%)				
	FY20	FY21	FY22	FY23E	FY24E	FY20	FY21	FY22	FY23E	FY24E
UTCEM	82.3	86.2	94.2	103.4	114.1	(4.1)	4.7	9.3	9.7	10.3
SRCM	28.7	30.0	31.2	34.7	38.5	(0.0)	4.4	4.0	11.2	11.0
DALBHARA	19.3	20.7	22.2	25.0	27.5	3.3	7.2	7.3	12.7	10.0
NUVOCO	12.2	16.0	17.8	19.5	21.0	(2.5)	30.5	11.3	9.7	7.7
ICEM	11.0	8.9	9.1	10.2	11.0	(11.4)	(19.2)	1.9	13.0	7.7
JKCE	10.2	11.9	14.0	15.1	17.4	0.2	16.7	16.9	8.3	14.9
TRCL	11.2	10.0	11.0	13.3	14.6	0.7	(10.9)	10.7	20.0	10.0
JKLC	10.0	10.5	11.2	11.7	12.2	(9.8)	4.0	7.1	4.7	4.3
ORCMNT	5.8	5.1	5.5	5.8	6.3	(9.5)	(13.0)	8.5	6.5	8.0
PRSMJ	5.7	5.8	5.2	5.7	6.1	(8.7)	1.7	(10.3)	9.0	7.0
HEIM	4.7	4.5	4.8	4.7	4.9	(3.9)	(4.7)	6.5	(2.0)	5.0
Total	201.3	209.5	226.2	249.2	273.7	(3.4)	4.1	7.9	10.2	9.8

Source: Company data, I-Sec research

Table 12: Realisation growth assumptions over FY20-FY24E

	Realisation (Rs/te)					Growth YoY (%)				
	FY20	FY21	FY22	FY23E	FY24E	FY20	FY21	FY22	FY23E	FY24E
UTCEM- blended	5,038	5,127	5,488	5,888	5,934	5.7	1.8	7.0	7.3	0.8
SRCM	4,299	4,432	4,799	5,104	5,146	5.2	3.1	8.3	6.4	0.8
DALBHARA - cement	4,691	4,879	5,048	5,250	5,277	(1.1)	4.0	3.5	4.0	0.5
NUVOCO	4,559	4,323	4,688	4,953	4,968	1.4	(5.2)	8.5	5.6	0.3
ICEM	4,668	5,018	5,338	5,391	5,499	1.4	7.5	6.4	1.0	2.0
JKCE- blended	5,603	5,449	5,614	5,968	5,944	10.5	(2.7)	3.0	6.3	(0.4)
TRCL	4,736	5,199	5,338	5,231	5,304	3.8	9.8	2.7	(2.0)	1.4
JKLC	4,342	4,523	4,841	5,390	5,362	12.1	4.2	7.0	11.3	(0.5)
ORCMNT	4,167	4,602	4,975	5,174	5,138	6.2	10.4	8.1	4.0	(0.7)
PRSMJ	4,516	4,443	4,612	5,027	5,027	2.1	(1.6)	3.8	9.0	-
HEIM	4,586	4,665	4,695	5,117	5,127	6.5	1.7	0.6	9.0	0.2
Weighted average	4,777	4,887	5,200	5,517	5,554	4.9	2.3	6.4	6.1	0.7

Source: Company data, I-Sec research

Table 13: EBITDA/te growth assumptions over FY20-FY24E

	EBITDA/te* (Rs)					Growth YoY (%)				
	FY20	FY21	FY22	FY23E	FY24E	FY20	FY21	FY22	FY23E	FY24E
UTCEM- consol.	1,128	1,341	1,222	1,132	1,391	31.8	19.0	(8.9)	(7.3)	22.9
SRCM	1,286	1,347	1,170	1,044	1,324	36.2	4.7	(13.1)	(10.8)	26.9
DALBHARA	1,092	1,346	1,062	879	1,110	4.5	23.3	(21.1)	(17.2)	26.2
NUVOCO	1,060	915	842	732	1,014	44.9	(13.7)	(7.9)	(13.1)	38.6
ICEM	530	902	530	195	670	10.2	70.1	(41.3)	(63.2)	244.2
JKCE	1,186	1,320	1,061	1,051	1,224	45.2	11.4	(19.6)	(1.0)	16.5
TRCL	991	1,529	1,136	807	1,164	7.6	54.3	(25.7)	(29.0)	44.4
JKLC	794	898	849	766	954	95.1	13.1	(5.4)	(9.7)	24.4
ORCMNT	659	1,090	1,079	777	919	35.5	65.4	(1.1)	(28.0)	18.3
PRSMJ	889	963	710	686	940	6.6	8.2	(26.3)	(3.4)	37.0
HEIM	1,122	1,129	867	741	1,060	13.7	0.7	(23.3)	(14.5)	43.1
Weighted average	1,068	1,256	1,086	959	1,226	29.7	17.6	(13.5)	(11.7)	27.9

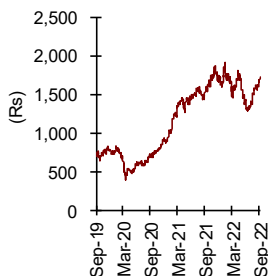
Source: Company data, I-Sec research; *including other operating income

Price charts

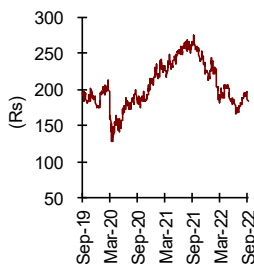
Dalmia Bharat



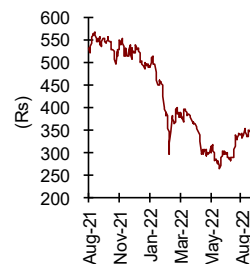
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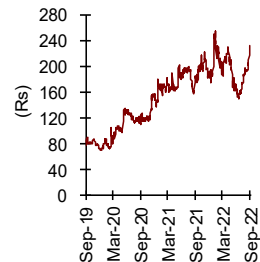
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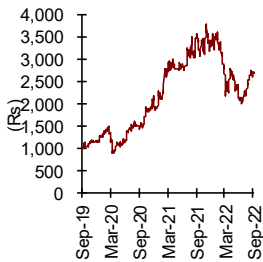
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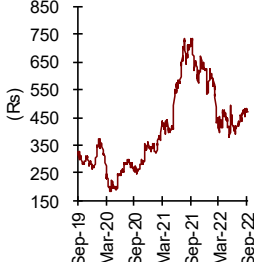
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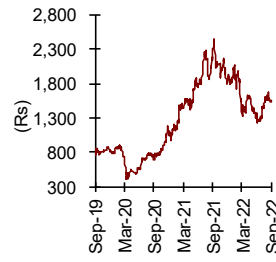
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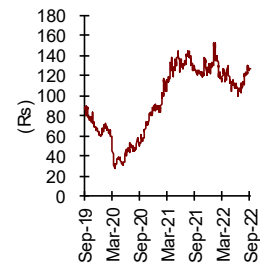
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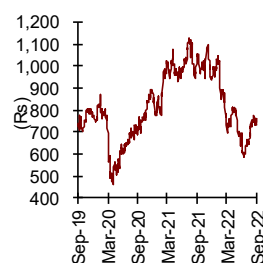
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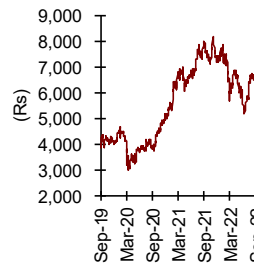
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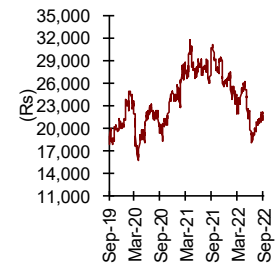
Ramco Cements



UltraTech Cement



Shree Cement



Source: Bloomberg

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