

India

December 18, 2022 - 8:50 PM

Overweight (no change)

Cement

Weekly Cement Compendium

- Average cement price at all India-level rose by ~2% MoM (+3% QoQ QTD) in Nov-Dec 2022, with the highest increase seen in East, North and South India.
- We expect the pricing to improve further for the industry owing to improvement in utilization level and the need to mitigate elevated input cost pressure.
- We expect profitability to improve significantly in 2HFY23F, given lower energy cost, higher cement prices, and a rise in volume growth.

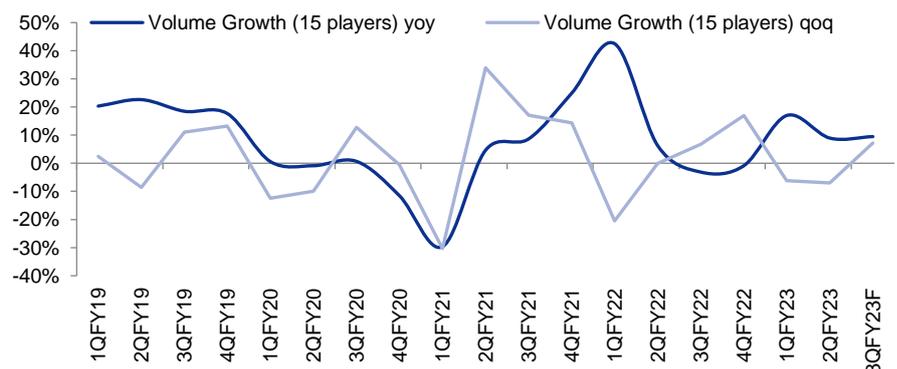
News headlines from the week gone by:

- Adani Group shuts down its two cement plants at Barmana and Darlaghat in Himachal Pradesh citing rising cost of transportation of raw materials to cement plant sites ([Source: Himbumail, Tribune India, The Hindu Business Line](#))
- Dalmia Bharat arm signs framework agreement to acquire JP Associates' cement assets at an EV of Rs56.6bn (~US\$73/t) ([Source: Company filing](#))
- Dalmia Bharat-Jaypee Group deal - Battle for third spot in cement market intensifies ([Source: Business Standard](#))
- Adani Cement unveils Geoclean to conserve natural resources ([Source: Company filing](#))
- West Bengal government to develop coal block to help cement sector grow ([Source: Global Cement](#))
- Decarbonising cement is the need of hour ([Source: The Hindu Business Line](#))
- UltraTech Cement commissions 1.9mtpa clinker-grinding facility in Rajasthan ([Source: Company filing](#))
- Himachal Pradesh govt to now buy cement from UltraTech ([Source: Hindustan Times](#))

Key takeaways on demand, pricing and cost inflation

- Our channel check indicated that cement demand improved significantly YoY in Nov 2022 across most markets owing to a soft base and strong infrastructure push by the government, with East and South India leading the pack among regions. On the pricing front, all-India average cement price rose by 2% MoM in Nov 2022. Region-wise, the price hike was higher in East, North and South India while it was lower in West and Central India.
- A continuous rising trend was witnessed in cement prices in most markets in the first week of Dec 2022, but absorption of such hikes will be key for further hikes.
- We expect margin improvement from the current quarter, given the usage of low-cost fuel inventory, higher prices and volumes. Key monitorables in the near term would be more correction in commodity prices and a further price hike across regions.

Figure 1: Volume growth trend – combined volume of major listed cement companies (top 15 players) increased by ~9% YoY in 2QFY23, and we expect industry volume to grow in high single-digit on a YoY basis in 3QFY23F



SOURCE: INCRED RESEARCH, COMPANY REPORT

Analyst(s)

Nishant BAGRECHA
 T (91) 22 4161 1564
 E nishant.bagrecha@incredcapital.com

Weekly Cement Compendium

News headlines from the week gone by

Dalmia Bharat arm signs framework agreement to acquire JP Associates' or JAL's cement assets: JAL & its associate company, namely, JPVL divested its cement (9.4mtpa), clinker (6.7mtpa) and thermal power plants or TPP (280MW) to Dalmia Cement (Bharat) at an enterprise value or EV of Rs56.6bn (~US\$73/t).

Event

- Dalmia Cement (Bharat) or DCBL, a wholly-owned subsidiary of Dalmia Bharat, has entered into a binding framework agreement for the acquisition of clinker, cement and power plants from Jaiprakash Associates or JAL and its associate company having total cement capacity of 9.4mtpa (along with clinker capacity of 6.7mtpa and thermal power plants of 280MW) at an enterprise value of Rs56.6bn (~US\$73/t). These assets are situated in the states of Madhya Pradesh, Uttar Pradesh & Chhattisgarh.
- The transaction is subject to due diligence, requisite approvals from lenders/joint venture partner of JPA and regulatory authorities.

Head start with ~10% capacity share in central India region

- The acquisition will enable Dalmia Bharat to expand its footprint into the central India region with a head start of ~10% capacity share (as plants located in Madhya Pradesh, Uttar Pradesh and Chhattisgarh) and will represent a significant step towards realization of its vision to emerge as a pan-India cement company.
- As per the company, the central India region represents ~15% of the country's cement demand and that the demand in the region is expected to grow at a 7% CAGR in the medium term. The region's utilization has been ~75%+ vis-à-vis pan-India utilization of ~65-70%.
- It is a unique opportunity to accelerate the expansion program and a significant step towards reaching the targeted ~75mtpa capacity by FY27F.

Other takeaways

- During 2QFY23, the company commissioned 20MW of solar power capacity and 4MW of waste heat recovery system, taking the capacity to 88MW and 41MW, respectively. Total renewable power capacity to rise to 173MW by FY23F, and to 328MW by FY24F.
- DBL's net debt as at end-2QFY23 stood at Rs6.5bn (cash at Rs26.4bn including Rs18.9bn market value of IEX investment, and gross debt of Rs32.9bn). Excluding the contribution from IEX, the cash balance stood at Rs7.5bn in 2QFY23.
- Net debt/EBITDA stood at 0.32x as at end-Sep 2022 and from a capital allocation perspective, DBL to maintain net debt/EBITDA ratio of <2x, which is not sacrosanct and may be topped in a shorter timeframe to capitalize on expansion opportunities so as to realize pan-India aspiration.

Our view

- We have not incorporated any changes to our estimates since the announcement of the potential acquisition of JAL's cement assets as the deal is still in its early stage. The capacity mix will change from the current South: East: West ~32:60:8 ratio to South: Central: East: West ~29:16:50:5. The acquisition will enable Dalmia Bharat to expand its footprint in the central India region (~10% capacity share) and will represent a significant step towards realization of its vision to emerge as a pan-India cement company with a targeted capacity of 75mtpa capacity by FY27F. However, low exit utilization of these assets suggests significant initial capex requirement, which would

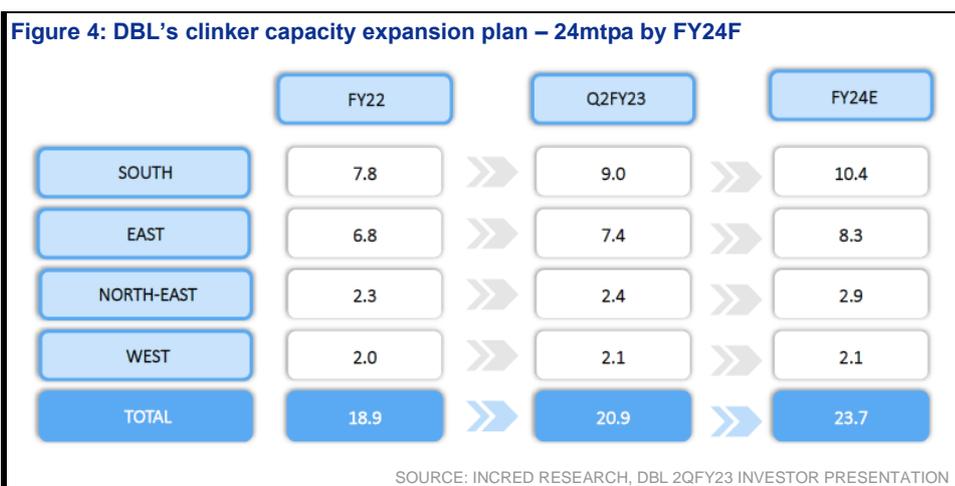
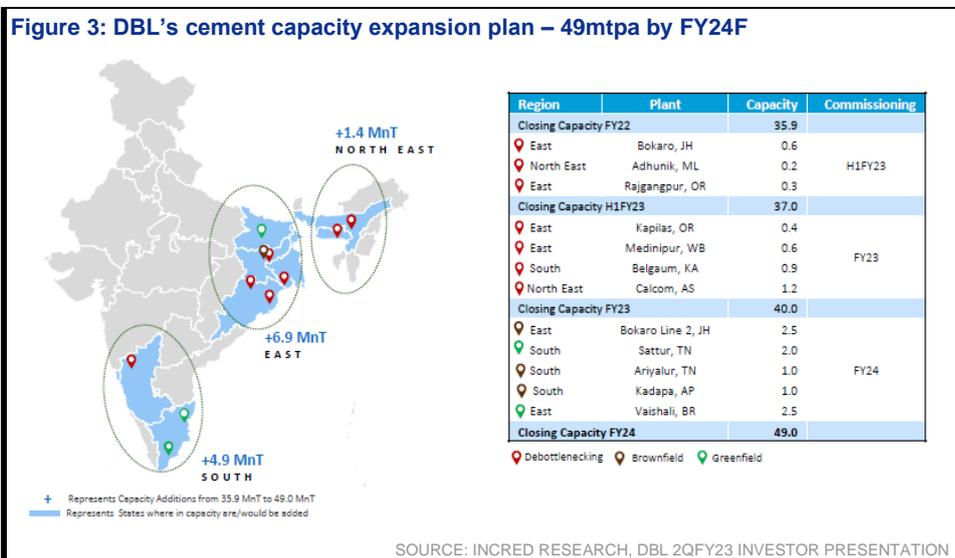
increase the acquisition cost. The deal is subject to final due diligence, and we await further details from the company's management.

- As regards the long-term perspective, DBL remains committed to its earlier announced target capacity. It is all set to achieve 110-130mtpa by FY31F. [\(Source: Company filing\)](#)

Figure 2: Cement capacity of JAL, BJCL and JPVL

Asset details	Clinker (mtpa)	Cement (mtpa)	TPP	Acquisition cost (Rsm)
JAL:				
Chunar GU, Mirapur, Uttar Pradesh	-	2.5	37	54,100
Churk, GU, Sonbhadra, Uttar Pradesh		1	180	
Rewa IU, Rewa, Madhya Pradesh	3.2	1.7	62	
Sadva cement blending unit, Prayagraj, Uttar Pradesh				
BJCL: (JV of JAL:SAIL in 74:26 ratio)				
Clinker unit in Satna, Madya Pradesh	1	0		
Durg, Chhattisgarh		2.2		
JPVL:				
Nigrie Cement GU, Singrauli, Madhya Pradesh		2		2,500
Total	4.2	9.4	279	56,600

SOURCES: INCRED RESEARCH, COMPANY REPORTS



Dalmia Bharat-Jaypee Group deal - Battle for third spot in cement market intensifies:

- Dalmia Bharat's Rs56.6bn acquisition of the Jaypee Group's cement business last week has put the spotlight on the next wave of consolidation in the sector. The battle for the third spot in the domestic cement market has intensified with the deal.

- **Takeaways from Mr. H M Bangur, chairman of Shree Cement in a conversation with Business Standard:**
 - Shree Cement is India's third-largest cement player with a total capacity of 47.4mtpa. Dalmia Bharat currently has an installed capacity of 37mtpa, which will increase to 46.4mtpa after the closure of the deal. The acquisition of the Jaypee Group's cement assets would give Dalmia Bharat access to 9.4mtpa of cement capacity.
 - Shree Cement is adding 9mtpa of cement capacity in the next 15 months, which will take its total installed capacity to 56.4mtpa.
 - "We have a strong agenda in terms of organic growth and remain committed to it. That doesn't mean that inorganic growth is something we are not looking at. In fact, we did consider Jaypee's cement assets from an acquisition perspective. But from an overall point of view, in terms of where we want it to be geographically, the acquisition wasn't fitting in. So, we opted to give it a pass," Mr. Bangur said.
 - From an organic growth perspective, there are three plants that will come up in the next 15 months. These will be at Purulia in West Bengal, Suratgarh in Rajasthan and an integrated cement plant in Andhra Pradesh. This should increase the cement capacity by 9mtpa. The capacity expansion will keep the company in the third spot, irrespective of the consolidation in the market.
- In Oct 2022, JSW Cement announced that it had acquired a 100% stake in Springway Mining, a subsidiary of India Cements, in Madhya Pradesh. The deal also gave the company substantial access to limestone reserves, to the tune of approximately 106mtpa. The acquisition also included a mining lease that is valid until 2065.
- With the acquisition, JSW Cement announced it will invest over Rs32bn in order to set up an integrated greenfield cement manufacturing facility in Madhya Pradesh. JSW Cement will also set up a split grinding unit in Uttar Pradesh. ([Source: Business Standard](#))

Adani Group shuts down its two cement plants at Barmana and Darlaghat in Himachal Pradesh citing rising cost of transportation of raw materials to cement plant sites

- Details of plants: (ACC's Gagal Cement works) Gagal-I: 2.0mtpa cement and 1.3mtpa clinker; Gagal-II: 2.4mtpa cement and 1.5mtpa clinker and (Ambuja Cements' plant) Darlaghat: 1.6mtpa cement and 3.4mtpa clinker.
- The Adani Group took this step soon after Himachal Pradesh Chief Minister Mr. Sukhvinder Singh Sukhu took a serious note of the increase in cost of cement in the state over the past several months.
- According to the head of these plants, due to rising cost of transporting raw materials and the prevailing market conditions, the transportation of cement has been cut drastically.
- This resulted in very poor dispatch of cement. It has adversely affected the company's market share and as a result, the company is suffering a huge financial loss, the plant head claimed. Hence, all employees have been informed that they should not come to work with immediate effect till further instructions.
- Closure of the plants may lead to shortage of cement as Ambuja Cements' plant at Darlaghat produces 2mtpa. The Barmana plant also produces 3,000 mt of cement per day.
- Cement from ACC's Barmana plant, which has the capacity to produce 15,000t of cement and clinker daily, is supplied across Himachal Pradesh, Punjab and Haryana through trucks. ([Source: Himbumail, Tribune India, The Hindu Business Line](#))

Adani Cement unveils Geoclean to conserve natural resources:

- Adani Cement unveiled Geoclean, its waste management arm, with a renewed emphasis on creating a circular economy and conserving natural resources. Earlier known as Geocycle, Geoclean will offer sustainable and innovative waste management solutions to agricultural, industrial, and public/municipal sectors.
- Geoclean, through co-processing of waste, contributes to a cleaner environment and conservation of natural resources, replacing traditional fuels with alternate fuels & raw materials.
- Geoclean is built on the foundation of sustainability and value enhancement of business through a circular economy. It offers sustainable and innovative waste management solutions to agricultural, industrial, and public/municipal sectors. Through co-processing waste from these sectors, it ensures the recovery of energy and recycling of materials from waste, leaving zero residue.
- Mr. Ajay Kapur, CEO, cement business, said, "We are committed to building a sustainable future by adopting clean and green technologies in our overall business. We have always believed in environmental conservation and are committed to making the optimum contribution towards co-processing waste responsibly for a sustainable future. Adani Cement will continue its endeavours to promote sustainability and build a cleaner and greener planet."
- Geoclean targets to increase the Thermal Substitution Rate (TSR) to 30% by 2027F for ACC and Ambuja Cements from the previous year's 6% through co-processed ~3.7mt of alternative fuels.
- "Geoclean is a pioneer in the industry in effectively utilising waste in kiln co-processing and has developed 14 co-processing facilities across India around AFR storage areas, feeding arrangement, and laboratories that support Adani Cement," he said.
- Geoclean has built 14 co-processing facilities in India around Adani Cement's AFR storage areas, feeding arrangements, and laboratories. It also intends to remove 2,400 tonnes of plastic waste per year from the Mantola canal in Agra, Uttar Pradesh, using its novel bubble barrier technology. ([Source: Company filing](#))

West Bengal government to develop coal block to help cement sector grow:

The government of West Bengal plans to commence mining activity at the Deocha Pachami cement block in Birbhum district. The state hopes that the block will support further development of industries, including cement. Financial Express Online News has reported that Mangalam Cement, Purbanchal Cement and Shree Cement plan to build new cement facilities in West Bengal. Shree Cement will invest US\$102m in its planned Purulia grinding plant. Mangalam Cement's potential upcoming grinding plant will serve its planned new integrated cement plant in Chhattisgarh. [\(Source: Global Cement\)](#)

Decarbonising cement is the need of hour: Decarbonising cement is the need of the hour, and it is important to invest in research and development to come up with suitable solutions to ensure sustainable operations, said Mr. Shashi Panja, state minister-in-charge, department of industry, commerce & enterprises. [\(Source: The Hindu Business line\)](#)

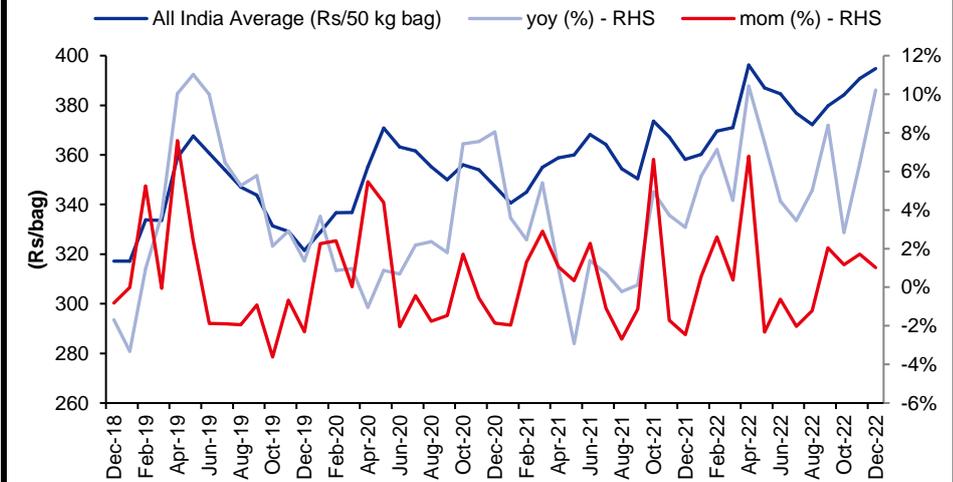
UltraTech Cement commissions 1.9mtpa clinker-grinding facility in Rajasthan: UltraTech Cement has commissioned its 1.9mtpa greenfield clinker-backed grinding capacity at Pali cement works in Rajasthan. This forms a part of the first phase of capacity expansion announced in Dec 2020. The company, along with its subsidiary, now has 16.25mtpa cement capacity in the state of Rajasthan spread over five separate plant locations. Ultratech Cement's total cement manufacturing capacity in India now stands at 121.35mtpa. [\(Source: Company filing\)](#)

Himachal Pradesh government to now buy cement from UltraTech:

- With no headway in talks between truck unions and officials of the Adani Group-owned companies that shut down operations at cement plants in Bilaspur's Barmana and Solan's Darlaghat, the Himachal Pradesh government on Saturday decided to buy cement from UltraTech.
- The closure of plants has brought many development works to a grinding halt in the state, which has requirement of 6,000 tonnes of cement.
- Most of the government's godowns have run out of stock as the dispute between the companies and truck operators over freight charges remains unresolved. The issue has also disrupted the supply of cement to wholesalers.
- The state's Civil Supply Corporation, which purchases cement from companies on rate contracts, has also written to the public works, rural development and Jal Shakti departments to make alternative arrangements for buying cement to continue the development works.
- Civil Supply Corporation's Managing Director Mr. K C Chaman said the demand for cement has increased due to closure of the plants. "The corporation has more than 118 cement godowns in the state, but stocks at many of them have dried up," he said, adding that the corporation would build more facilities for storage purpose. [\(Source: Hindustan Times\)](#)

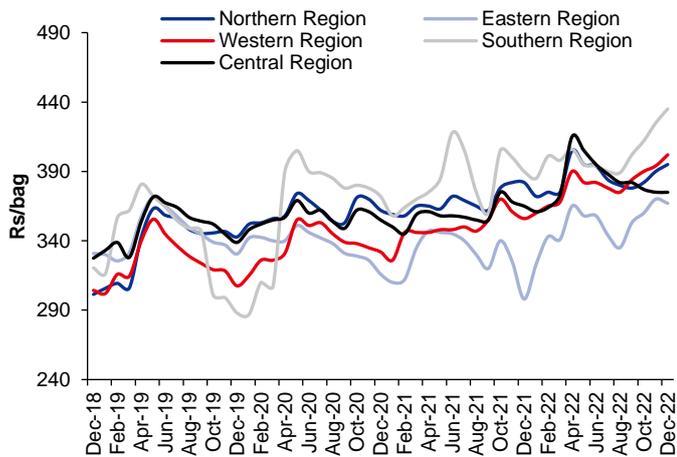
Cement prices ➤

Figure 5: All-India cement average price was up 1.7% MoM in Nov 2022 and continues to trend upwards in Dec 2022



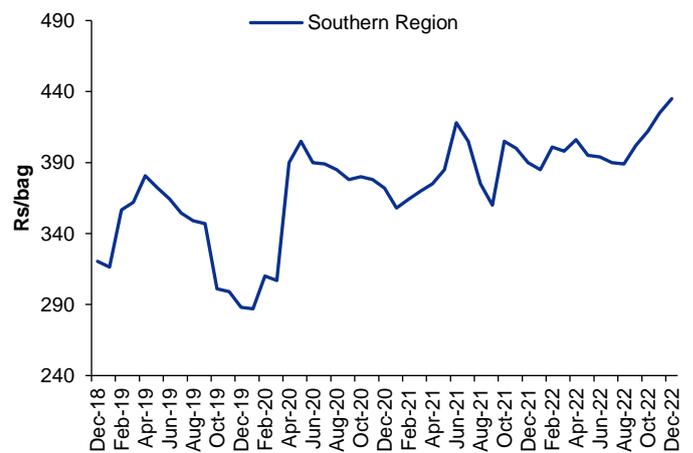
SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 6: Region-wise, the price increase (in QTD terms) was higher in East, North and South India markets, while it was lower in Central India



SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

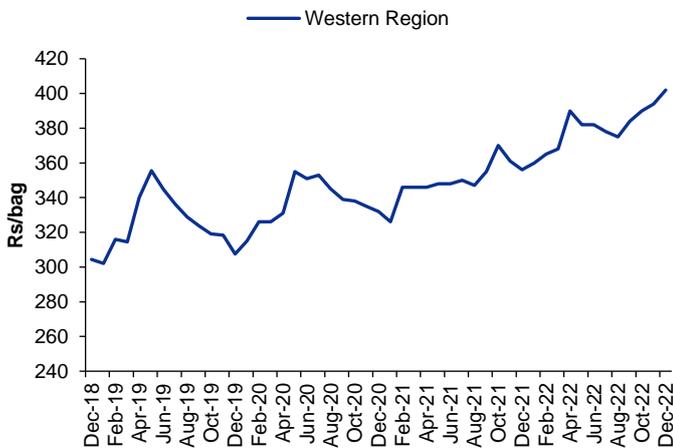
Figure 7: South India witnessed relatively higher MoM cumulative cement price hike of Rs20-25/bag in Oct-Nov 2022, and a further hike by Rs10/bag has been announced in the first week of Dec 2022



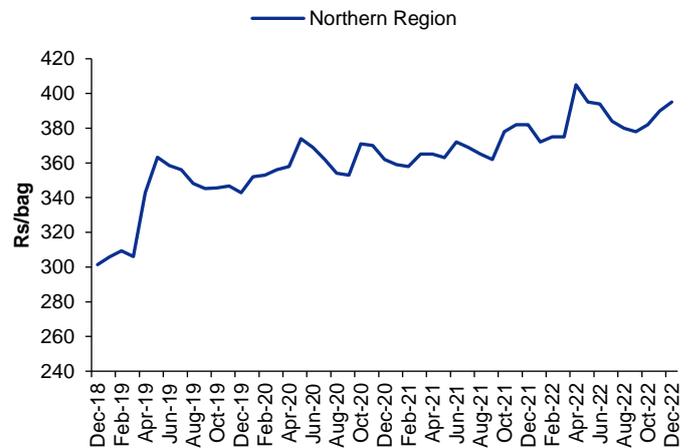
SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 8: Western India cement prices rose by Rs8-10/bag MoM in Oct-Nov 2022; dealers expect the prices to remain steady as demand has been relatively healthy in the region with a further hike of Rs10/bag announced for the Maharashtra market in the first week of Dec 2022

Figure 9: North India cement prices and demand remained weak in Oct 2022, but picked up well and were strong during Nov 2022; North India saw a cumulative price hike of Rs10-12/bag in Oct-Nov 2022; a further hike of Rs5-8/bag has been announced in the first week of Dec 2022



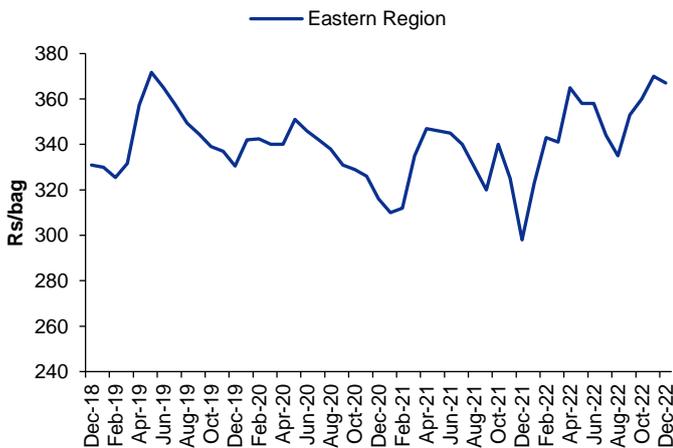
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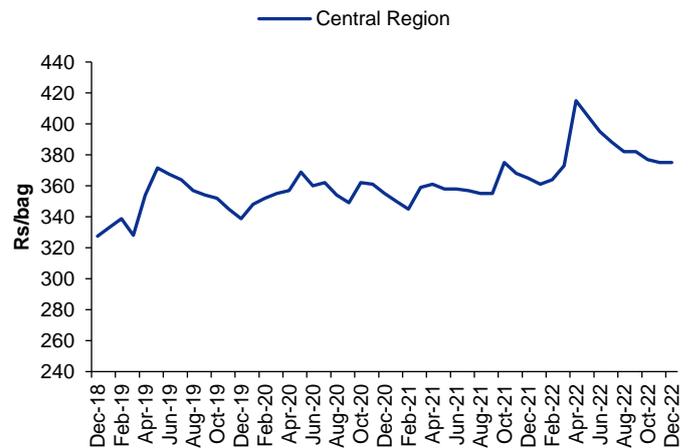
SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 10: East India cement prices improved significantly in Oct-Nov 2022 cumulatively by Rs15/bag; in Dec 2022 till date, prices have largely remained stable in most markets

Figure 11: Central India cement prices declined by Rs5-7/bag in Oct-Nov 2022; dealers expect the companies to attempt a price hike in the current month, but its sustenance would be key monitorable



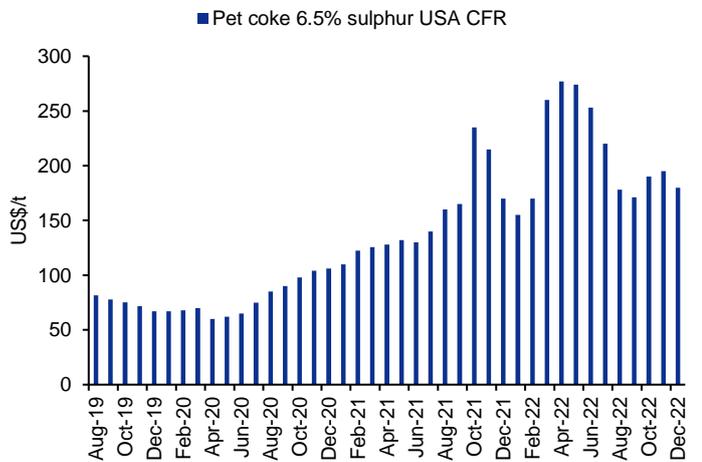
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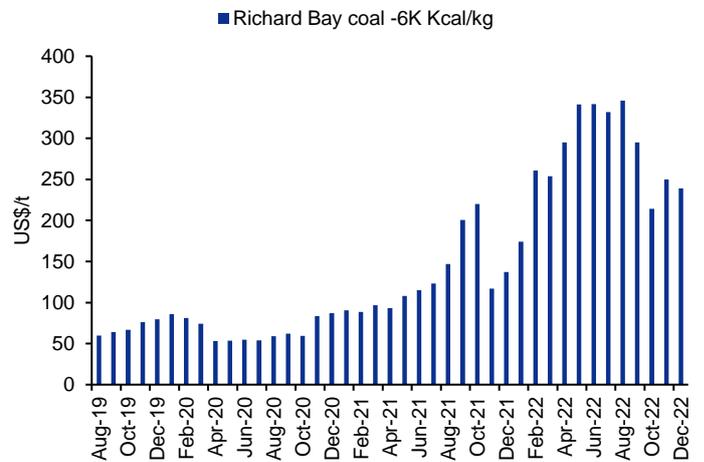
Cement sector - major input cost trends

Figure 12: Pet-coke prices started their uptrend in Feb 2022, while in last two-three months both international and domestic pet-coke prices started declining (pet-coke prices fell ~20% from Apr-May 2022 levels)



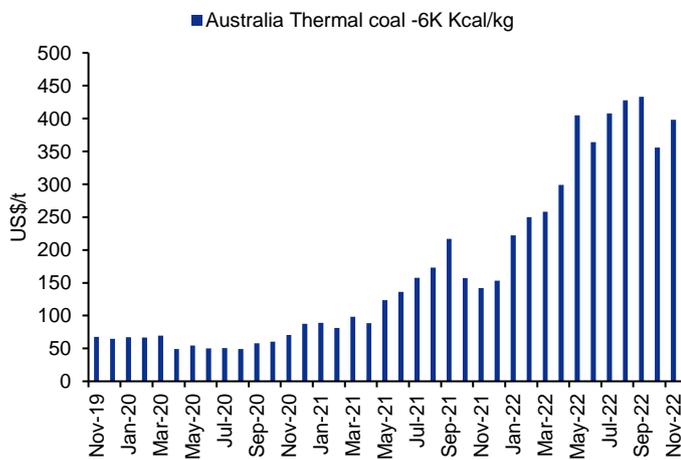
NOTE: CFR = CODE OF FEDERAL REGULATIONS
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Imported coal prices fell sharply in Nov 2021, but increased sharply from Dec 2021 onwards and have now started falling again from Oct/Nov 2022



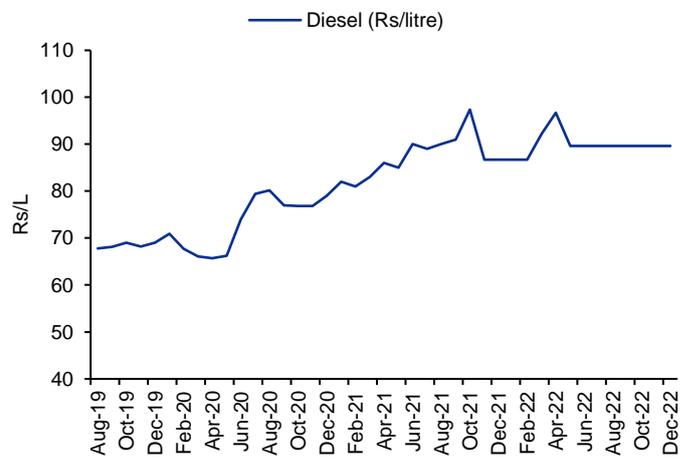
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 14: Australian coal prices started their uptrend in Jan 2022, up 35% MoM in May 2022, and remained at a similar level in Jul 2022 while they were down >10% MoM in Oct-Nov 2022



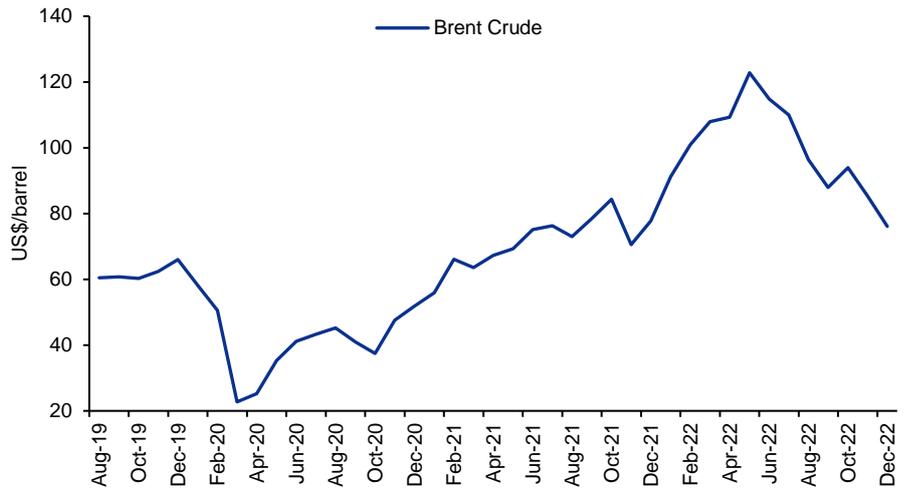
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 15: Average diesel price rose in Oct 2021, but excise duty cut reduced diesel price and it remained unchanged for four consecutive months till Feb 2022, while the surge in crude oil prices led to a rise in diesel price by 4% in Mar 2022 and by 9% in Apr 2022; central government cutting excise duty on diesel by Rs6/L and the recent sharp correction in crude oil price maintained the diesel price



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 16: Crude oil prices have started correcting from Jun 2022, with a ~34% decline in Dec 2022 vs. Jun 2022 level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key operational quarterly charts (2QFY23 review) ➤

Figure 17: Volume growth trend – combined volume of major listed cement companies (top 15 players) increased by ~9% YoY in 2QFY23 and we expect industry volume to grow in high single-digit on a YoY basis in 3QFY23F

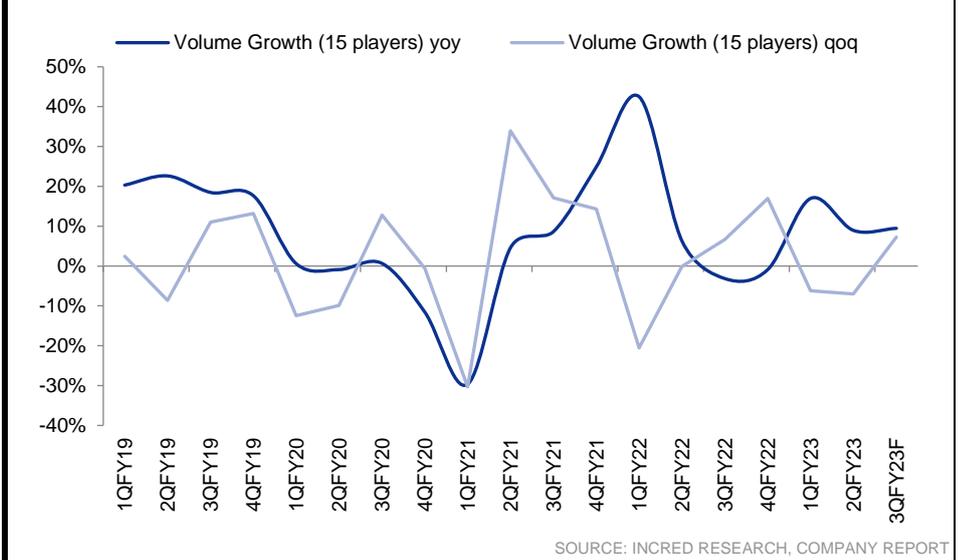


Figure 18: Average realization declined by ~3.3% QoQ

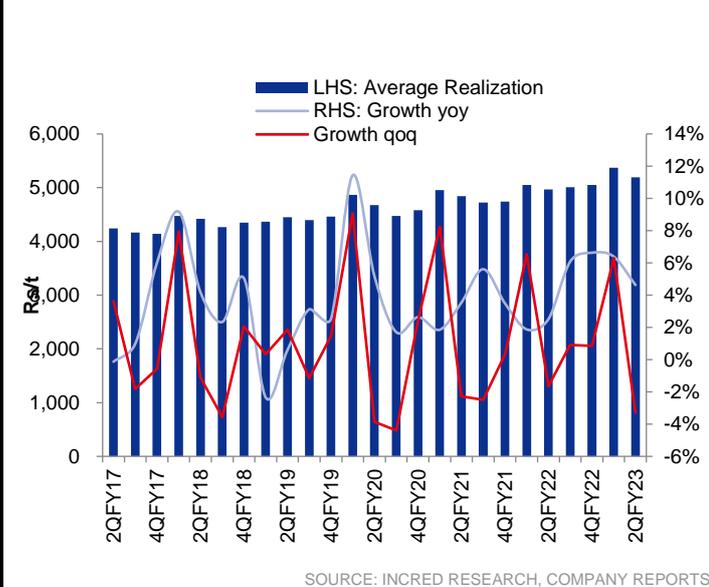


Figure 19: Trend in unit cost – average total cost/t increased by 21% YoY and 5.5% QoQ; we expect the cost to come down significantly in 2HFY23F

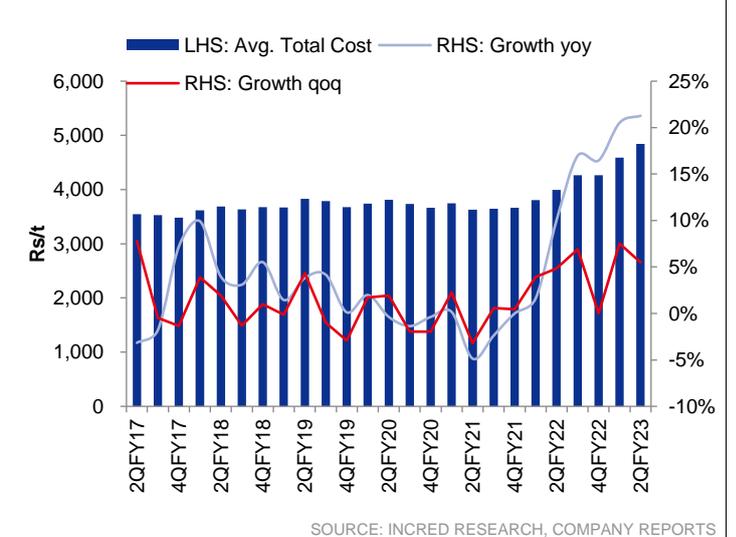
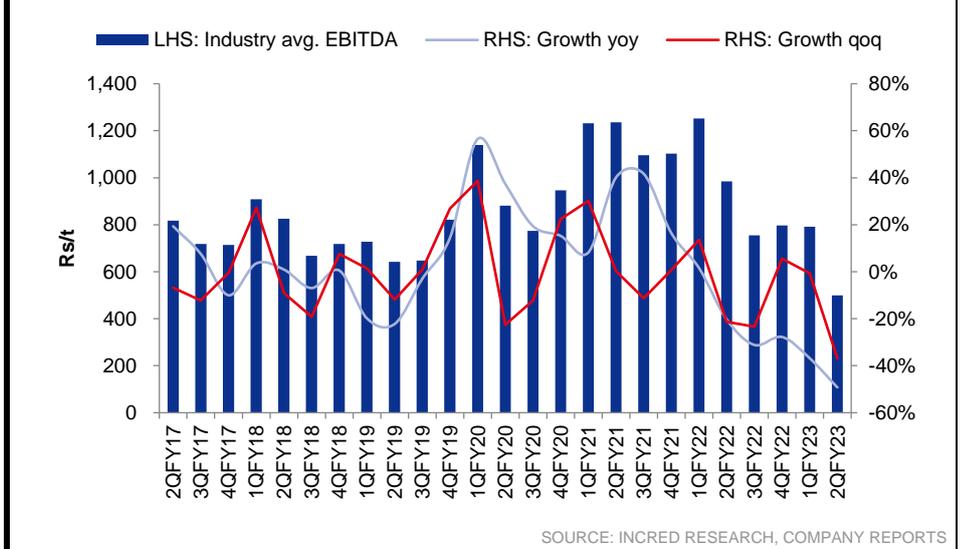


Figure 20: Sector EBITDA/t was the lowest during 2Q in the past eight years



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