

India

August 04, 2024 - 11:40 PM

Overweight (no change)

Cement

Jul 2024 - weak pricing trend continues

- Our check suggests that in Jul 2024, cement prices fell further by Rs6-7/bag (~2%) m-o-m on a pan-India basis. Sharp price hike likely only post monsoon.
- We believe industry volume grew in low single digit in 1Q and continued to see pressure in Jul 2024. We expect the demand to recover from 3QFY25F.
- As regards input costs, international coal prices were lower by 3-4% while pet-coke prices remained broadly flat m-o-m in Jul 2024.

Prices decline m-o-m by ~2%; seasonal schemes on ground

- Our channel check and a discussion with experts highlighted that pan-India cement prices declined by ~2% m-o-m in Jul 2024 and spot prices are down by ~2% vs. 1Q average. On Rs/bag basis, prices are down by Rs6-7 m-o-m in Jul 2024 and spot prices are at a 36 to 40-month low (at Covid-19 pandemic level) on a pan-India basis. Our discussions with experts highlighted that, apart from the seasonal price drop observed during the season, competitive intensity is leading to an additional cut of Rs2-3/bag. Demand remains affected due to the peak monsoon and shortage of labour. Overall demand has been like average seasonal demand but it's the bottomed-out prices that's hurting margins.
- Our channel check suggests no price hike was attempted in Jul 2024; dealers expect a sharp price hike only post-monsoon (3QFY25F onwards) and beginning of the festive season when demand starts picking up.
- Brands have switched to seasonal discount schemes to generate volume. Some companies are getting their plants serviced a few weeks earlier amid the current low-demand phase.

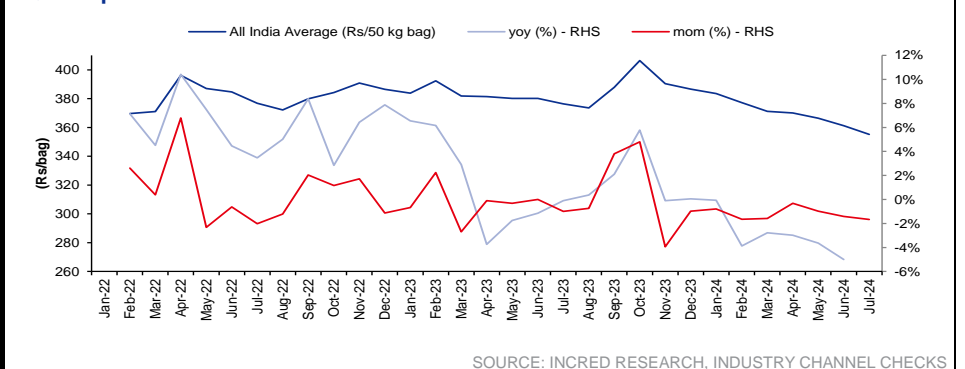
Region-wise channel check

- **South:** Cement demand was impacted due to higher-than-average rainfall during the month. Prices fell by Rs9-10/bag m-o-m in Jul 2024. Price hikes are possible only post monsoon, as per dealers, but will remain range-bound as large players enter the market.
- **East:** Dealers believe that demand has become unpredictable since the pre-election phase (Apr 2024). The prices have declined by Rs7-8/bag, with large players continuing to outgrow smaller players. No indication of price hikes, but seasonal discount, in effect, to generate volume.
- **North:** Cement prices have declined by 3-4/bag m-o-m in Jul 2024. Demand remained flat yoy. Dealers expect a moderate price hike by mid-Sep 2024F.
- **West:** Prices in the region declined by Rs3-4/bag m-o-m in Jul 2024. Spot prices in Mumbai are in the range of Rs380-390/bag. Demand remained lower m-o-m, with the monsoon being more active in the region in Jul 2024.
- **Central:** Average cement price declined by Rs4-6/bag m-o-m in Jul 2024. Dealers highlighted that rural demand showed an improvement. Overall demand is expected to revive post monsoon, followed by prospects of a price hike. Spot prices are at Rs330-340/bag in Bhopal, and at Rs360-370/bag in Ayodhya.

Research Analyst(s)

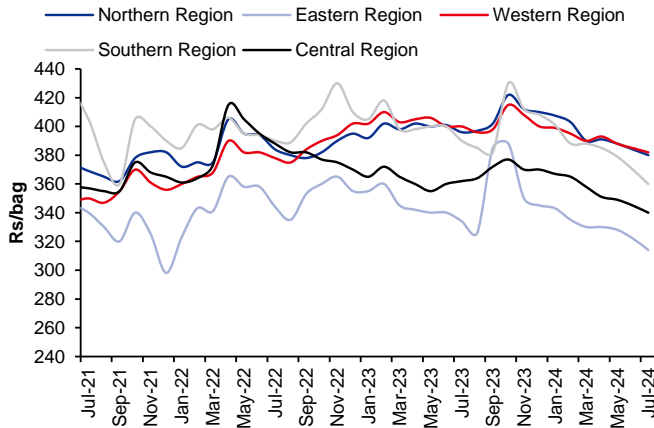
Nishant BAGRECHA
 T (91) 22 4161 1564
 E nishant.bagrecha@incredresearch.com
Saurabh SINGH
 T (91) 2241611558
 E saurabh.singh@incredresearch.com
Rohan KALLE
 T (91) 22 4161 1561
 E rohan.kalle@incredresearch.com

Figure 1: All-India cement average prices were down ~2% m-o-m and at an average of 1QFY25 prices in Jul 2024



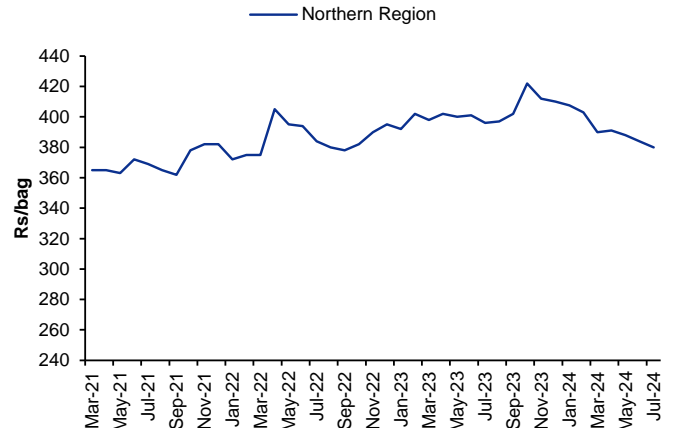
Pricing pressure continues; revival expected from 3QFY25F
Cement prices ➤

Figure 2: Region-wise, cement prices declined m-o-m in all regions in Jul 2024



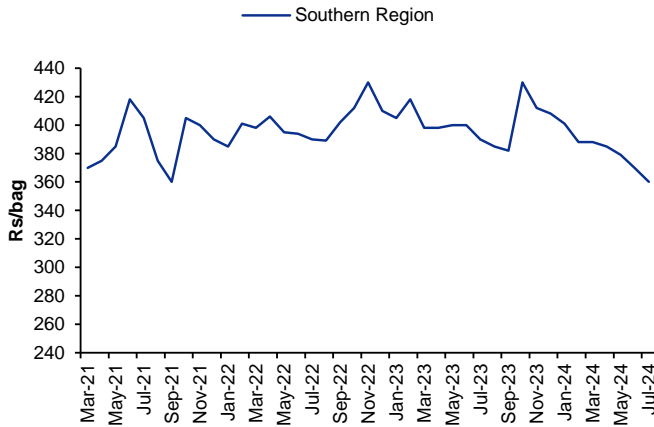
SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 3: North India cement price trend



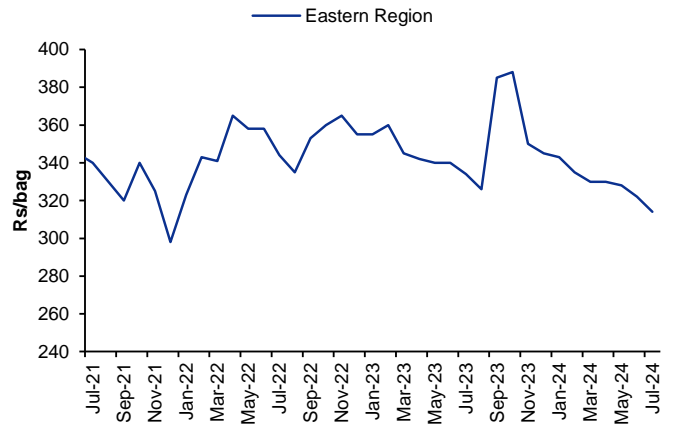
SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 4: Southern region's cement price trend



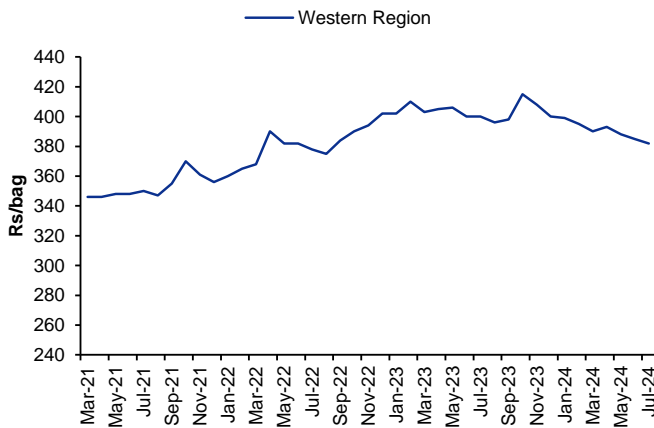
SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 5: Eastern region's cement price trend



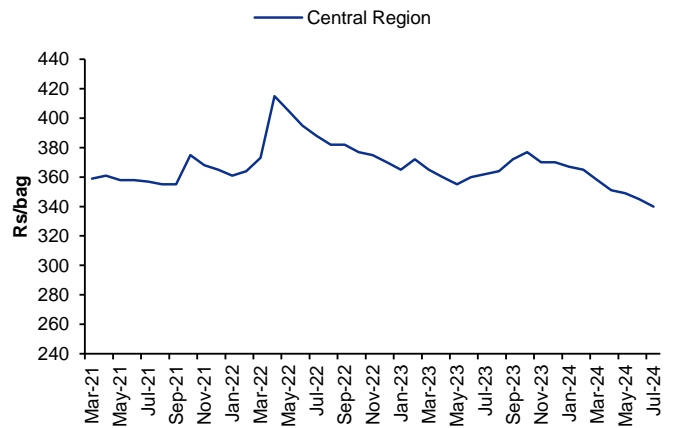
SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 6: Western region's cement price trend



SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 7: Central region's cement price trend

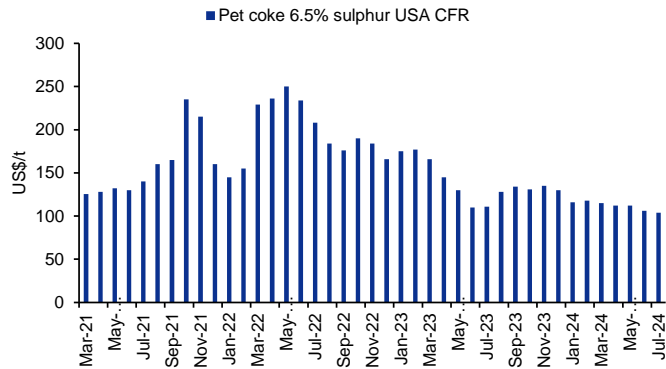


SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Major input costs trend ➤

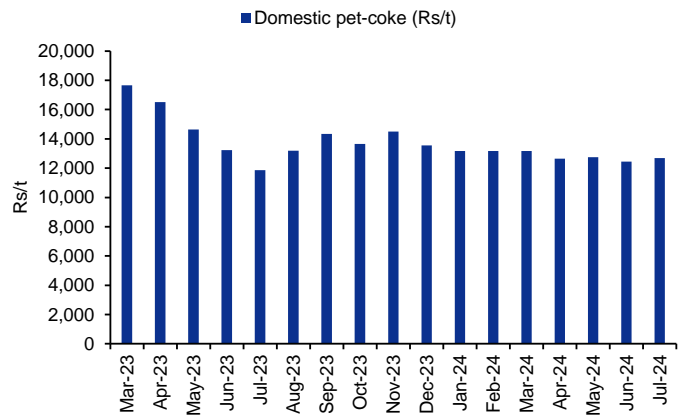
- Overall fuel prices remain stable:** In Jul 2024, international pet-coke prices remained steady at US\$104/t (down ~10% YTD) while imported coal prices were marginally up in the past few months at US\$110/t. The fall in global consumption of pet-coke and new supplies from Oman entering the market at a competitive price (especially for Indian importers) is expected to keep the pricing position better in the next few months. Cement producers indicate that input costs for the industry are likely to remain stable in the near term.

Figure 8: International pet-coke prices remain stable



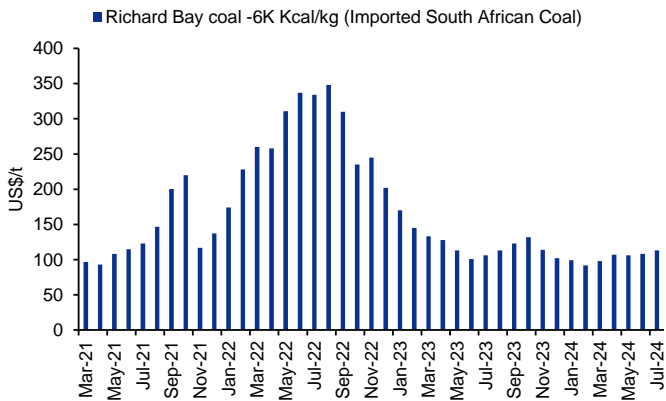
NOTE: CFR = CODE OF FEDERAL REGULATIONS
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Domestic pet-coke prices



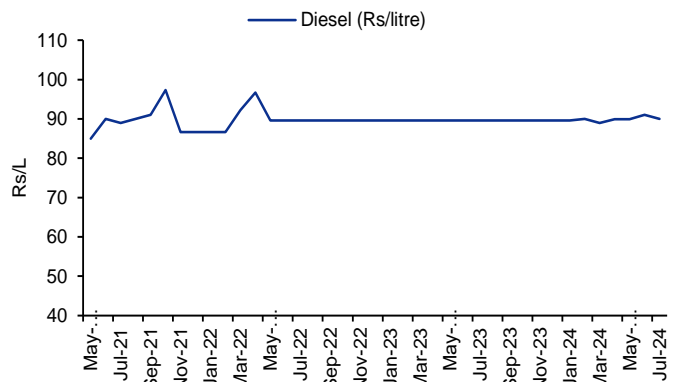
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 10: Imported coal price (South African 6k/kcal) trend



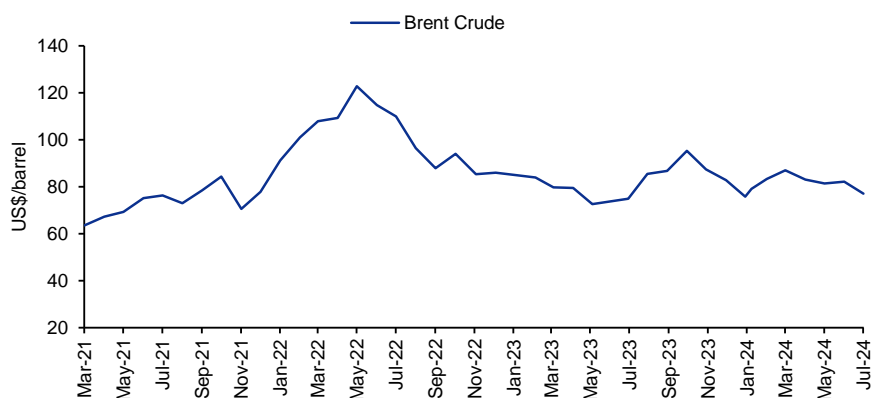
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 11: Average diesel price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 12: Crude oil price trend



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 13: Cement peer comparison

Company	Bloomberg Ticker	Rating	Closing Price (LC)	Target Price* (LC)	% Upside	Market cap (US\$ m)	EV/EBITDA (x)			P/BV (x)			RoE (%)			P/E (x)			EV/T (US\$)		
							FY24	FY25F	FY26F	FY24	FY25F	FY26F	FY24	FY25F	FY26F	FY24	FY25F	FY26F	FY24	FY25F	FY26F
UltraTech Cement	UTCEN IN	ADD	11,765	12,560	7%	40,533	25.4	21.7	17.6	5.4	4.9	4.4	12%	13%	16%	45.5	38.4	29.9	144.9	161.1	172.9
ACC	ACC IN	ADD	2,435	2,960	22%	5,458	15.0	13.1	11.3	3.0	2.7	2.4	14%	12%	12%	20.8	23.5	20.9	147.7	137.8	125.9
Ambuja Cements	ACEM IN	ADD	653	775	19%	19,189	37.5	32.8	28.3	3.7	3.1	2.9	7%	6%	7%	57.1	53.5	44.6	230.0	239.7	272.2
Shree Cement	SRCM IN	HOLD	27,295	27,639	1%	11,753	21.1	19.3	16.8	4.8	4.4	4.0	12%	11%	12%	41.6	41.5	36.0	214.5	177.8	159.5
The Ramco Cements	TRCL IN	HOLD	828	870	5%	2,334	15.4	14.4	12.3	2.7	2.6	2.4	6%	6%	8%	48.5	43.8	30.5	125.3	120.7	114.1
JK Cement	JKCE IN	HOLD	4,285	4,600	7%	3,951	18.9	17.2	14.9	6.4	5.7	5.0	16%	16%	17%	43.5	37.4	30.6	192.0	178.4	156.0
Birla Corp.	BCORP IN	ADD	1,510	1,800	19%	1,387	10.7	9.3	8.1	1.9	1.7	1.6	7%	8%	10%	29.9	22.5	17.2	92.4	92.2	85.7
HeidelbergCement	HEIM IN	HOLD	227	176	-22%	615	14.4	11.7	10.0	3.4	3.3	3.2	11%	15%	17%	29.7	22.4	19.2	87.5	86.5	84.6
Dalmia Bharat	DALBHARA IN	ADD	1,799	2,100	17%	4,026	13.1	12.2	10.5	2.1	2.0	1.8	5%	7%	7%	41.3	31.0	25.6	92.8	90.1	81.3
JK Lakshmi	JKLC IN	ADD	848	955	13%	1,191	11.1	10.4	9.1	3.2	2.7	2.4	15%	16%	17%	21.9	18.1	15.0	85.0	83.0	76.1
Orient Cement	ORCMNT IN	ADD	356	250	-30%	869	11.7	10.5	10.0	3.0	2.8	2.5	10%	13%	13%	29.9	23.0	20.6	74.3	79.8	64.4
Mean							17.7	15.7	13.5	3.6	3.3	3.0	11%	11%	12%	37	32	26	135	132	127
Median							15.0	13.1	11.3	3.2	2.8	2.5	11%	12%	12%	41	31	26	125	121	114
Minimum							10.7	9.3	8.1	1.9	1.7	1.6	5%	6%	7%	21	18	15	74	80	64
Maximum							37.5	32.8	28.3	6.4	5.7	5.0	16%	16%	17%	57	53	45	230	240	272

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG. PRICES AS ON 2ND AUG 2024

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.