

India

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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.

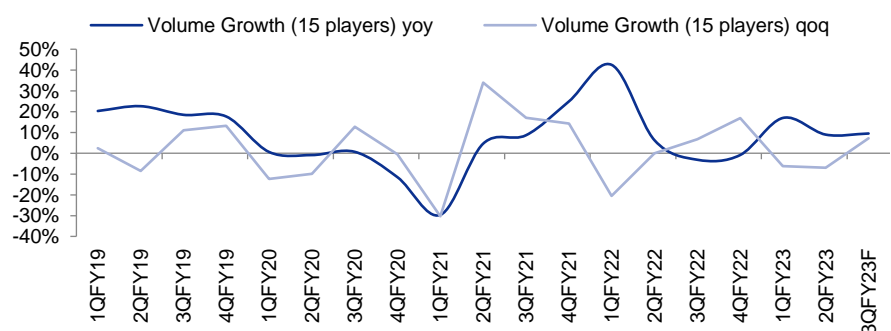
News headlines from the week gone by:

- Jaypee Group companies' board meetings on Monday to discuss divestment of cement grinding unit, other issues [Source: JP Power filing, JP Associate filing, Dalmia Bharat filing](#)
- UltraTech Cement commissions 3.6mtpa new grinding capacity [\(Source: UTCEM filing\)](#)
- Takeaways from CNBCTV18 interview with Mr. Anil Singhvi, executive chairman of Shree Digvijay Cement [\(Source: CNBCTV-18\)](#)
- Ground-breaking ceremony at JK Cement's Madhya Pradesh grinding plant [\(Source: CEMNET\)](#)
- Siam Cement Group forms joint venture for new ACC plant [\(Source: CEMNET\)](#)
- India Budget will bet big on infrastructure with 30% more funds [\(Source: Live Mint\)](#)
- Cement shares up on price hike, demand revival [\(Source: The Hindustan Business\)](#)
- Ramco Cements inaugurates new dry mix plant in Salem [\(Source: Construction World\)](#)
- India's capex cycle sets the stage for a US\$10 trillion economy [\(Source: The Economic Times\)](#)
- Union Minister Nitin Gadkari inaugurates multiple national highway projects in Madhya Pradesh [\(Source: Live Mint\)](#)
- JK Paints drawing up specifications for a greenfield project [\(Source: Project Today\)](#)

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 increase 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 to likely come 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.

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

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Weekly Cement Compendium

News headlines from the week gone by

Jaypee group companies' board meetings on Monday to discuss divestment of cement grinding unit, other issues:

- Jaypee Group company Jaypee Power Ventures will hold a board meeting on Monday to consider a proposal to divest its Nigrie cement grinding plant in Madhya Pradesh.
- Separately, Jaypee Group flagship company Jaiprakash Associates informed that a board meeting has been convened on the same day to apprise the board of the recommendations of the audit committee and the progress on the various divestment initiatives.
- Jaiprakash Associates (JAL) currently has an aggregate capacity of around 6mtpa while Jaiprakash Power Ventures has around 4mtpa. In Oct 2022, Jaiprakash Associates and Jaiprakash Power Ventures announced their plan to divest cement business as well as some non-core assets to reduce debt. Post that, reportedly, these assets may be acquired by the Adani Group. But Adani Enterprises, part of the Adani Group, had refuted such media reports via exchange filings. Please note that while the Adani Group had acquired Holcim assets via a special purpose vehicle – Endeavour Trade and Investment, it was Adani Enterprises that issued the related clarification.
- Dalmia Bharat also filed a Closure of Trading Window for all the designated persons and their immediate relatives with effect from 10 Dec 2022, after taking note/approval of an event by the company/ Dalmia Cement (Bharat), a subsidiary of the company at its meeting scheduled on Monday. ([Source: Dalmia Bharat filing](#))
- Thus, it may be just a matter of time before such cement assets of the Jaypee Group are sold off to repay debt.

Jaiprakash Power Ventures filing: ([Source: JP Power filing](#))

Jaiprakash Associates filing: ([Source: JP Associates filing](#))

Figure 2: Jaypee Group's current cement capacity details

Particulars	State	Cement capacity (mtpa)	Clinker capacity (mtpa)	Captive power capacity (MW)
Jaypee Rewa	Madhya Pradesh	1.7	3.2	62
Chunar cement factory, Churk	Uttar Pradesh	2.5		37
Jaypee Nigrie Cement Grinding Unit	Madhya Pradesh	2		
Churk	Uttar Pradesh	1		180
Bhilai Jaypee Cement	Chhattisgarh	2.2	1.1	
Jaypee Shahabad Cement Project	Karnataka	1.2		60
Total		10.6	4.3	339

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Siam Cement Group forms JV for new ACC plant

- Thailand-based Siam Cement Group (SCG) has entered into a joint venture (JV) with India's BigBloc Construction (BCL) to build a greenfield plant to manufacture aerated autoclaved concrete (AAC) blocks and AAC panels.
- The JV, known as Siam Cement BigBloc Construction Technologies, is 52 per cent controlled by BCL and 48 per cent by SCG. The new JV marks an investment of Rs650m (US\$7.9m), according to The Financial Express, and will be located in Kheda district near Ahmedabad in Gujarat.
- Production at the new plant is due to begin by the end of 2023F. ([Source: CEMNET](#))

Ground-breaking ceremony at JK Cement's Madhya Pradesh grinding plant:

- JK Cement has performed a ground-breaking ceremony for its 1.5mtpa greenfield grinding unit in Madhya Pradesh's Ujjain district. Construction and

installation activities have commenced with an investment of Rs4,000m (US\$48.5m).

- Currently, JK Cement has two operating units in the state - a greenfield integrated cement plant at Panna and a wall putty plant in Katni district. The company plans to increase its cement production capacity to 25mtpa by FY25F and has developed a roadmap for 30mtpa of cement capacity in the next few years.
- With the latest addition, including a newly built grinding unit at Hamirpur (Uttar Pradesh) along with integrated cement plant in Panna, the overall grey cement capacity will touch 20.5mtpa once the Ujjain unit is commissioned.

[\(Source: CEMNET\)](#)

UltraTech Cement commissions 3.6mtpa new grinding capacity: UTCEM has commissioned 1.8mtpa greenfield grinding capacity at the Dhule grinding unit in Maharashtra and 1.8mtpa brownfield clinker-backed second grinding capacity at Dhar Cement Works in Madhya Pradesh. These capacities form part of the first phase of capacity expansion announced in Dec 2020. The company's total cement manufacturing capacity in India now stands at 119.45mtpa. [\(Source: UTCEM filing\)](#)

India Budget will bet big on infrastructure with 30% more funds: The government plans to sharpen its focus on infrastructure growth in the coming Union Budget by allocating 30% more funds for the roads ministry to speed up construction of more than 50km of highways daily. Building highways has positive effects on the economy such as creating jobs and increasing the demand for cement and steel. [\(Source: Live Mint\)](#)

Cement shares up on price hike, demand revival: Cement company stocks have rallied on the back of improving demand, price hikes and a fall in input cost. On an average, all-India cement prices increased by 2%. The eastern region, which witnessed the third consecutive hike, saw a price hike of 4% last month, while the western region registered a MoM rise of 2%. The southern and northern regions witnessed a moderate hike of 1%, even as prices remained flat in the central region. With buoyant demand, cement companies are gearing up for another price hike this month. Driven by housing and infrastructure sectors, the cement industry witnessed a V-shaped recovery and healthy growth in FY22. [\(Source: The Hindustan Business\)](#)

Ramco Cements inaugurates new dry mix plant in Salem:

- Ramco dry mix division's Salem plant was inaugurated on 5 Dec 2022. This plant will offer various technologically advanced and well-engineered polymer modified products, thereby taking the organizational philosophy forward. The plant will be manufacturing ready-mix building products like Ramco Tile Fix in six variants, Ramco Tile Grout in 40 colour shades, Ramco Block Fix, Ramco Super Plaster – ready-mix with sand in three variants, and Ramco Super Fine – putty. These products will be offered in convenient packs, keeping in mind the usage at construction sites viz., 1 kg pouches are available in case of Ramco Tile Grout and 25 kg bags in case of Ramco Super Plaster.
- The plant is a fully automated batch mixing plant set up as per green standards. The plant has been set up adjacent to The Ramco Cement's grinding unit. The availability of all raw materials within a radius of 100km ensures that environmental impact is reduced. [\(Source: Construction World\)](#)

India's capex cycle sets the stage for a US\$10 trillion economy:

- India has progressed from a US\$300bn economy to a US\$3tr economy in 30 years. The vision is to become a US\$10tr economy by 2031F. This transformative journey is backed by multiple growth vectors like broader demand from consumption with adequate support from lower cost of capital and a proactive policy stance from the government. Most of this requires a sizeably higher dose of capital investment from every constituent in the

economy. Gross fixed capital formation (GFCF) forms around 30% of India's GDP at US\$790bn. Public and private capex are stronger, while infrastructure and industrial capex were flat over the last decade. India has witnessed a sluggish investment cycle for the past 10 years since peaking in FY11, following the recovery from the Global Financial Crisis (GFC). This was characterised by the absence of large-scale capex in sectors such as power and metals.

- Of the US\$790bn total GFCF, around US\$325-350bn is large-scale organised capex on industries (US\$200bn) and infrastructure (US\$125bn) that are identifiable capital investment opportunities. Post-Covid demand recovery, higher commodity prices, and better pricing power driven by industry consolidation are among the key drivers. Industry utilization is at a trigger point (73.4%, highest in the last 12 quarters) for the top five players in most core sectors - cement, metals, power, and refining - making a strong case for corporate capex. [\(Source: The Economic Times\)](#)

Union Minister Nitin Gadkari inaugurates multiple national highway projects in Madhya Pradesh:

- Union Minister for Road Transport and Highways Mr. Nitin Gadkari inaugurated seven National Highway projects worth Rs24.4bn with a total length of 204 km in Rewa, Madhya Pradesh.
- Mr. Gadkari said that with the construction of the Satna-Bela four-lane road, connectivity will become easier for coal, cement and diamond industries in the region. He said the journey from Satna to Rewa now can be completed in 40 minutes. Access to famous tourist places like Jhansi, Orchha, Khajuraho, Panna, and Satna will be easy. Farmers and other small entrepreneurs will have easy access to the market, saving time and fuel, he added.
- Mr. Gadkari announced the widening of the Rewa-Sidhi road, approving the demand to make it four-lane. He also announced a 19km-long two-lane bypass at Rewa to four-lane. With the widening of this bypass, the connectivity of Prayagraj-Varanasi via Chorhat from Satna will be good, he said. The minister also inaugurated Madhya Pradesh's first Rs16bn six-lane twin tunnel of 2.28km length and a 13km four-lane bypass at Rewa in Madhya Pradesh. [\(Source: Live Mint\)](#)

JK Paints drawing up specifications for a greenfield project:

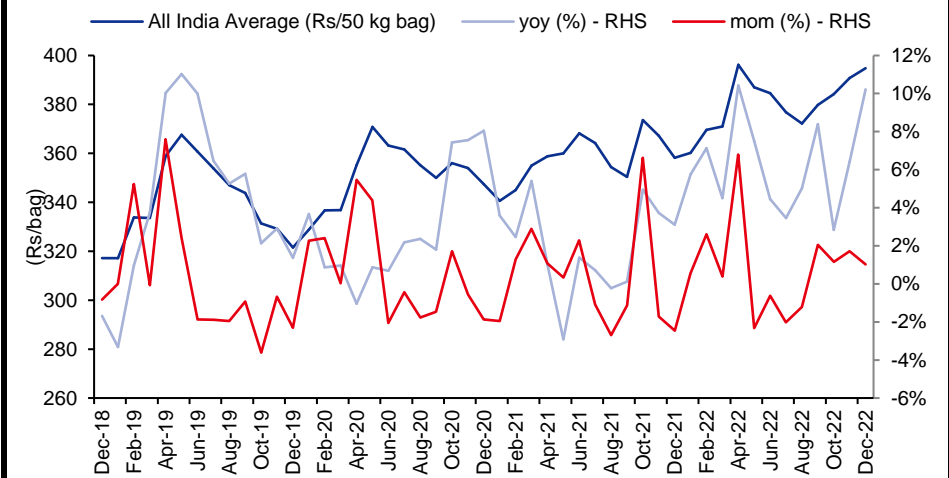
JK Paints & Coatings, a wholly-owned subsidiary of JK Cement, is drawing up a plan to set up a greenfield paint manufacturing unit at Kosi Kotwan industrial area in Mathura district of Uttar Pradesh. The proposed unit will be spread over 24 acre of land parcel with a capacity to produce 1,20,000klpa of water-based paint. The project will be implemented in two phases. In Nov 2022, JK Paints & Coatings has received environment clearance for the project. The company is in the process of preparing the design and specifications for the project. [\(Source: Project Today\)](#)

Takeaways from CNBCTV-18 interview with Mr. Anil Singhvi, executive chairman of Shree Digvijay Cement:

- He said cement demand is picking up now. Nov 2022 especially was a very good month which bodes well for demand till May or Jun 2023F, before the monsoon, and expects demand to be in double-digits till May-Jun 2023F.
- Input costs like the price of pet-coke have come down in the past two months. Similarly, crude oil prices have come off. There will be a cascading effect, he said, but it is early days to count on softening of the prices in a big way. [\(Source: CNBCTV-18 Interview\)](#)

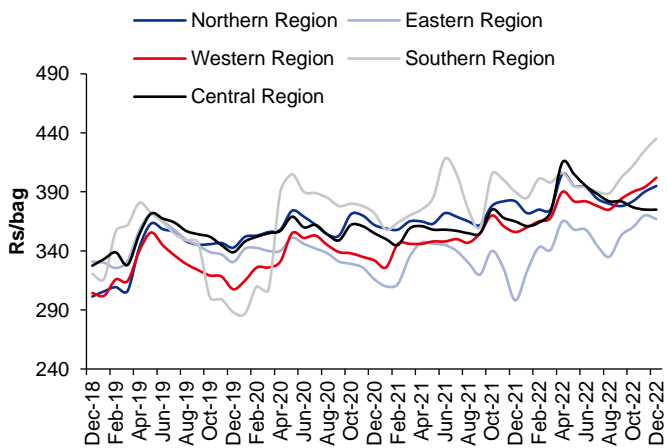
Cement prices ➤

Figure 3: All-India cement average price was up 1.7% MoM in Nov 2022 and continues to trend upwards in Dec 2022

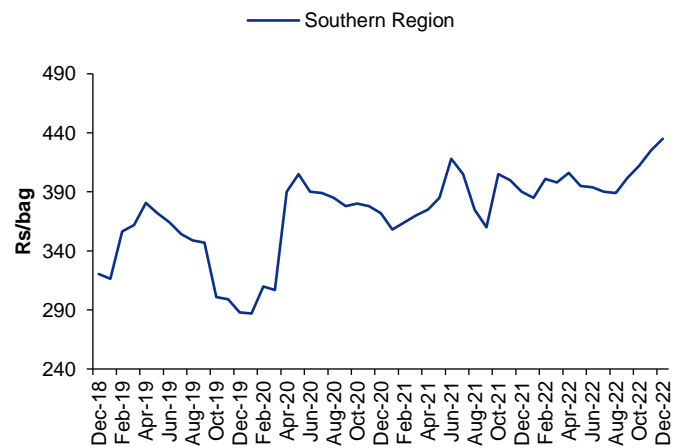


SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 4: Region-wise, the price increase (in QTD terms) was higher in East, North and South India markets, while it was lower 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

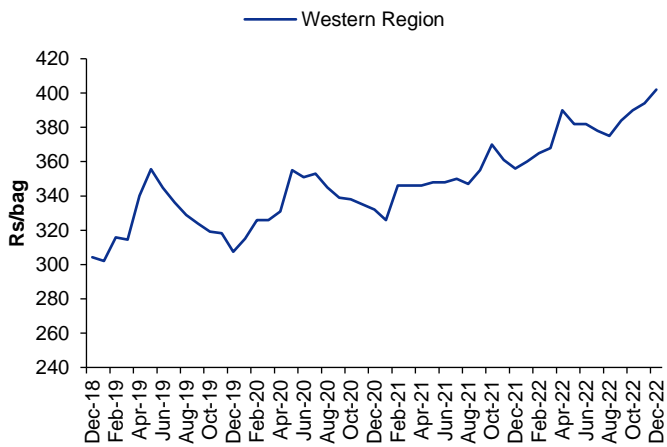


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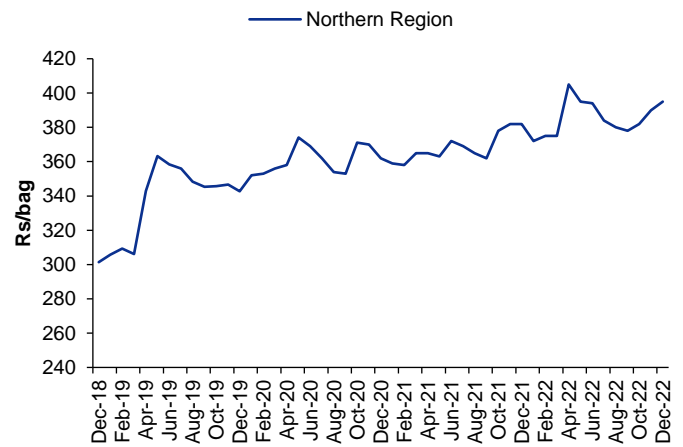


SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 6: Western India cement prices rose by Rs8-10/bag MoM in Figure 7: North India cement prices and demand remained weak in Oct-Nov 2022; dealers expect the prices to remain steady as Oct 2022, but picked up well and were strong during Nov 2022; demand has been relatively healthy in the region with a further hike North India saw a cumulative price hike of Rs10-12/bag in Oct-Nov of Rs10/bag announced for the Maharashtra market in the first 2022; a further hike of Rs5-8/bag has been announced in the first week of Dec 2022

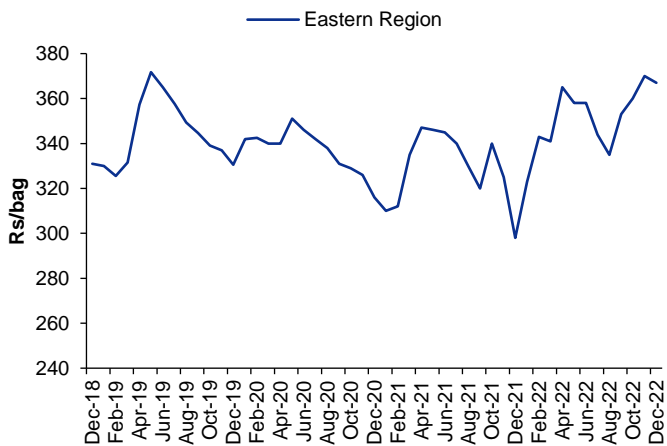


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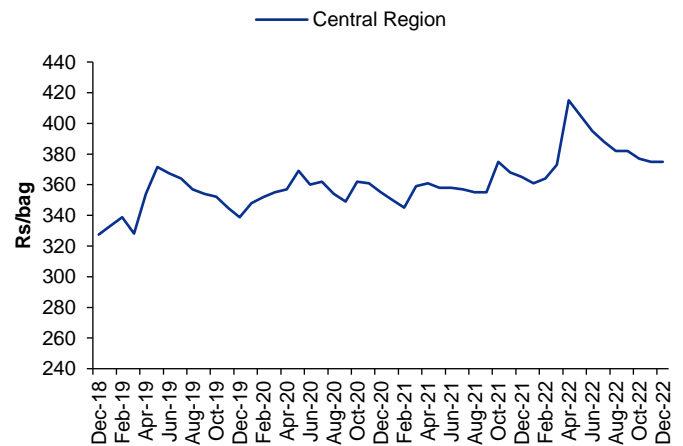
SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 8: 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



SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 9: 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



SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Cement sector - major input cost trends ➤

Figure 10: Pet-coke prices started their uptrend in Feb 2022, while Figure 11: Imported coal prices fell sharply in Nov 2021, but in last two-three months both international and domestic pet-coke increased sharply from Dec 2021 onwards and have now started prices started declining (pet-coke prices fell ~20% from Apr-May falling again from Oct-Nov 2022 2022 levels)

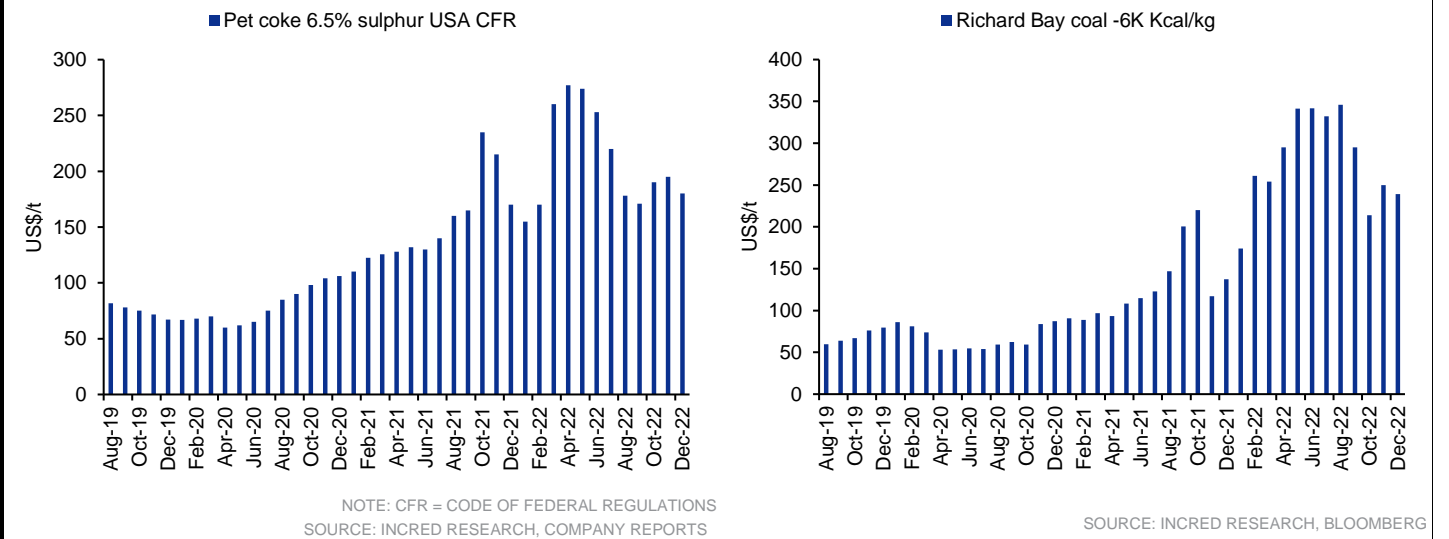


Figure 12: Australian coal prices started their uptrend in Jan 2022, Figure 13: Average diesel price rose in Oct 2021, but excise duty up 35% MoM in May 2022, and remained at a similar level in Jul cut reduced diesel price and it remained unchanged for four consecutive months till Feb 2022, while the 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

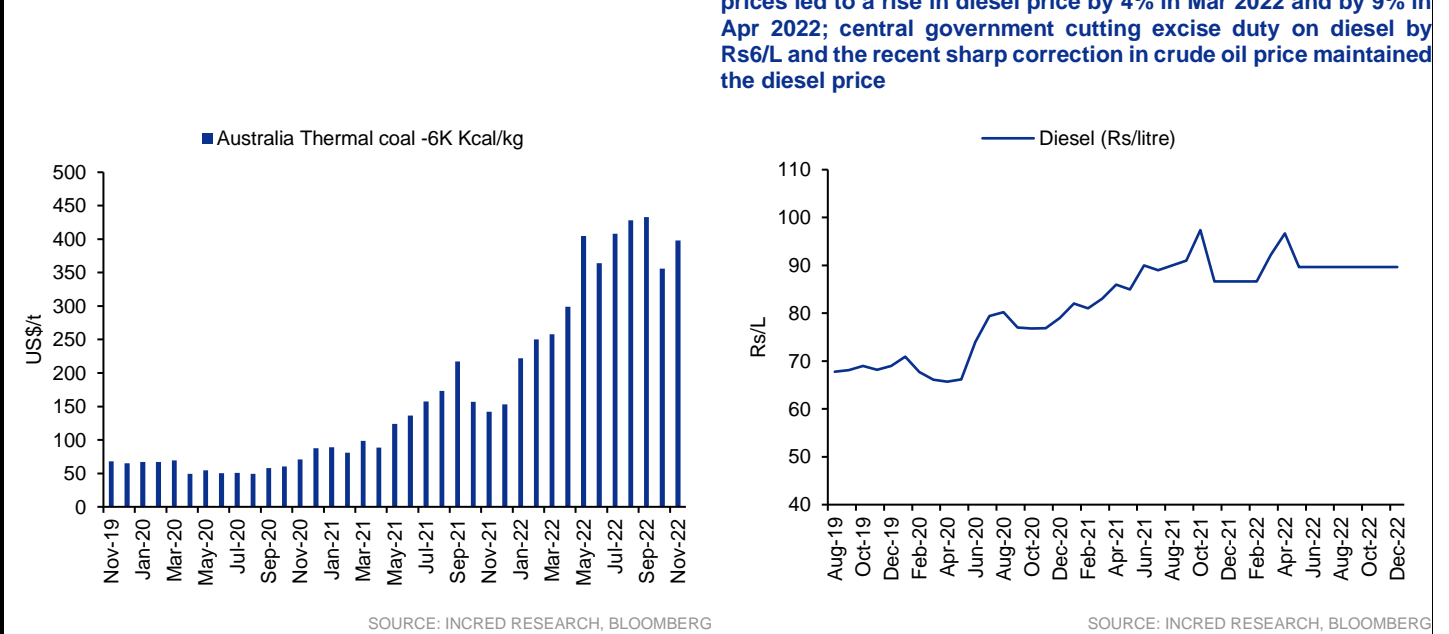
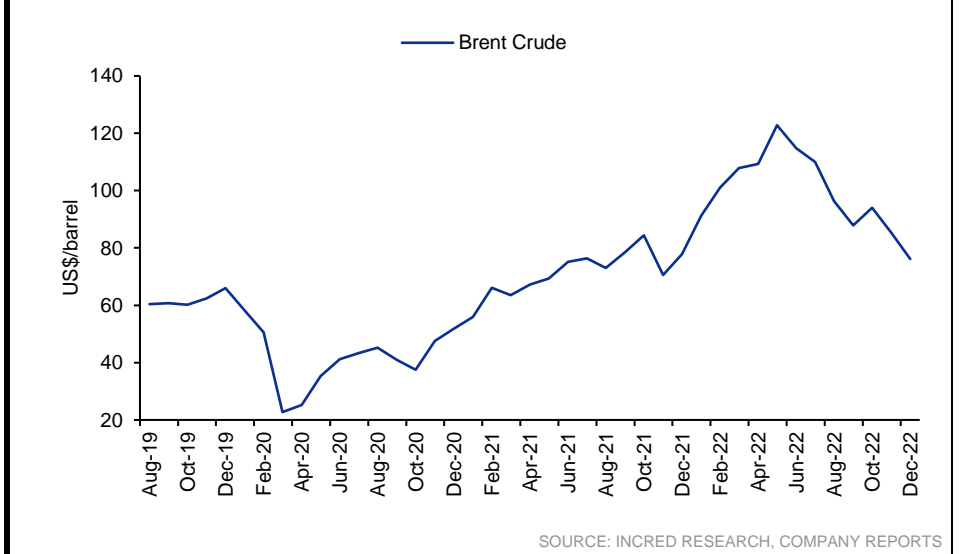


Figure 14: Crude oil prices have started correcting from Jun 2022, with a ~34% decline in Dec 2022 vs. Jun 2022 level



Key operational quarterly charts (2QFY23 review) ➤

Figure 15: 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

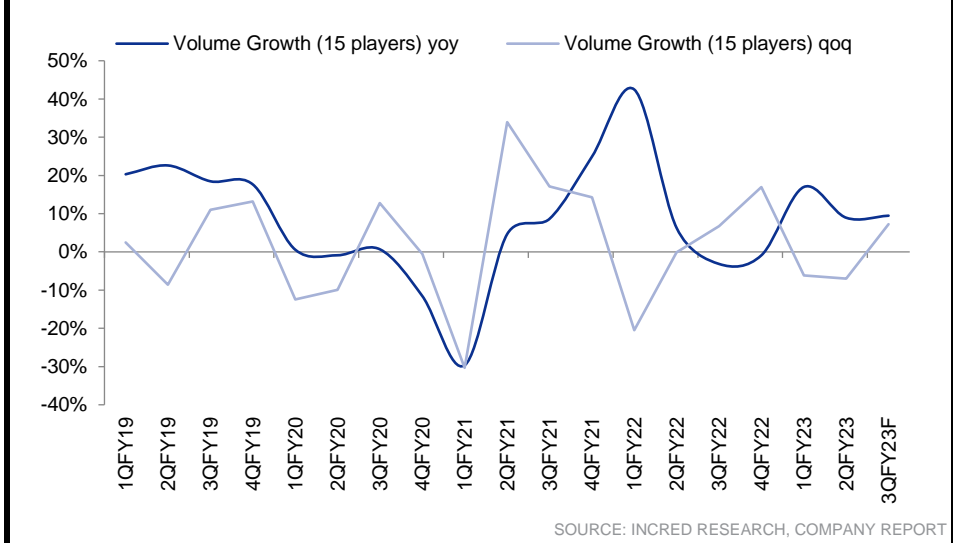


Figure 16: Average realization declined by ~3.3% QoQ

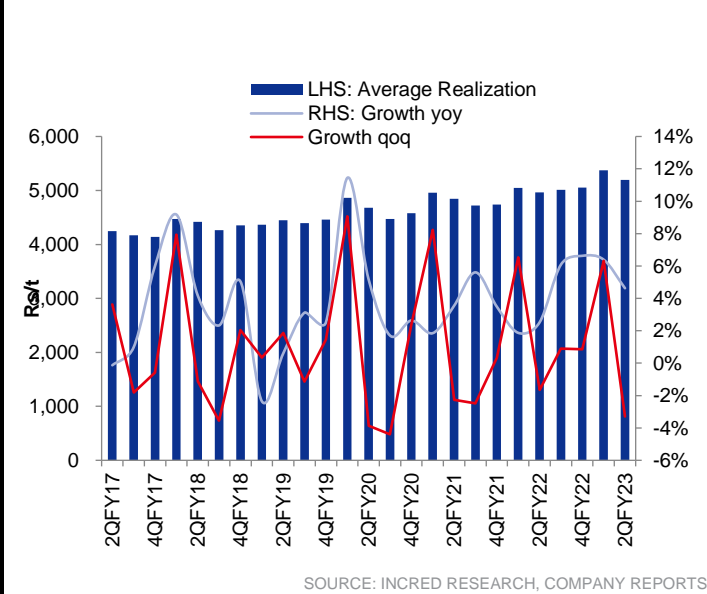


Figure 17: Trend in unit cost – average total cost/t increased by 21% YoY and 5.5% QoQ; we expect the cost to come down significantly in 2HFY23F

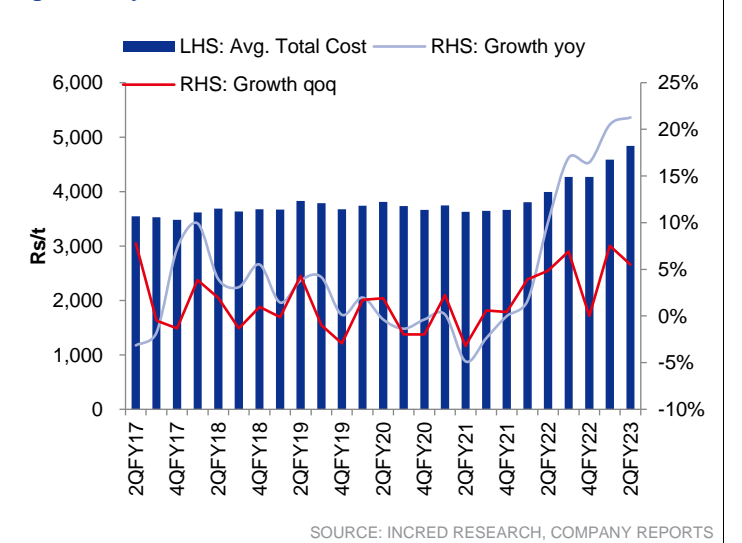
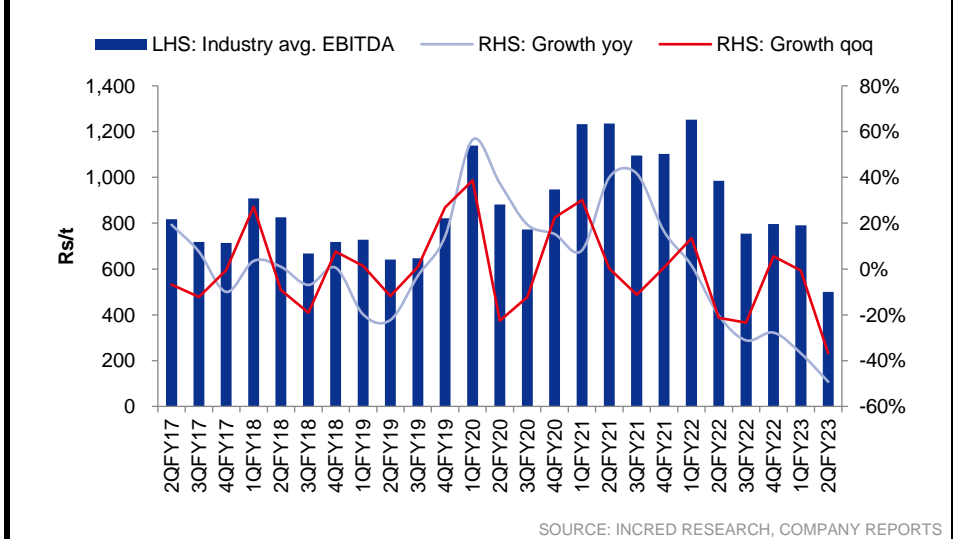


Figure 18: Sector EBITDA/t was the lowest during 2Q in the past eight years



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