

India

November 02, 2024 - 10:40 AM

**Overweight** (no change)

# Cement

## Oct 2024 flattish; post-festive recovery is key

- Our channel check indicates that in Oct 2024, cement prices remained flat m-o-m on a pan-India basis, changing +0.4%/-12% qoq/yoy on a QTD basis.
- We feel the second half of 3QFY25F will be better on the demand front, with some key regions contributing meaningfully as government capex begins.
- On input costs, fuel prices are favourable with pet-coke prices down 12% YTD & Brent crude oil prices at a lower level seen during the Covid-19 pandemic.

### Prices miss the festive spark; demand remains in neutral gear

- Based on our recent channel check, pan-India cement prices remained largely flat m-o-m in Oct 2024, and spot prices were down by ~2% vs. 1QFY25 average exit price and ~12% yoy. QTD, the price hike in southern and eastern regions saw a reversal due to soft demand and volume push by large players. Competition among large players for volume is expected to keep steep price hikes on the backburner even post- monsoon. Prices were relatively better in other regions. Any price hike in Nov 2024 and 3QFY25F depends on the demand scenario.
- Our discussions with an expert indicated that cement demand improved in Oct 2024 vs. 2Q, but remains lower due to the gov't's infrastructure spending on the slow track. However, rising pollution in the northern region, workers returning to their hometown for the festive season & assembly polls in Maharashtra could defer the demand further.

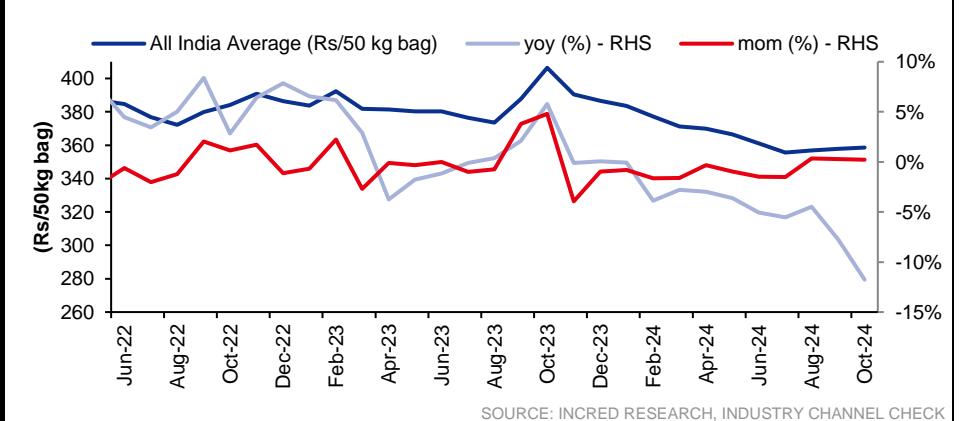
### Region-wise channel check

- **East:** Dealers highlighted that demand weakness continues. Average cement price was up by Rs2-3/bag m-o-m in the region. Dealers believe that any major price hike is likely only post Nov 2024F, but they are not sure about its sustainability due to the lower-than-expected demand trend. Average spot price in West Bengal stood at Rs332/bag.
- **South:** Average price fell by Rs3-4/bag m-o-m (~1.0%) in the region due to subdued demand and pressure from players increasing capacity in the region. Delayed government spending, along with pricing pressure, is making the region fare worse in comparison to others. Average spot price in Bengaluru stood at Rs365/bag.
- **North:** Average price was up by Rs2-3/bag m-o-m. Expect prices to increase in 2H of the current month once the workers return to work after the festive season. Avg. spot prices in New Delhi and Varanasi were at Rs380-390/bag and Rs390/bag, respectively. Any restriction on construction activity due to pollution will be negative for demand.
- **West:** Average price was up by ~1% m-o-m in Oct 2024 and pricing fared well in the region but dealers don't expect any price hike in Nov 2024F, with Maharashtra going for assembly polls and Gujarat prices being better placed. Demand has picked up but missed last year's spark, as per dealers. Average spot price in Mumbai was Rs390/bag and Ahmedabad at Rs380/bag.
- **Central:** Prices remained stable m-o-m, and the expected Oct 2024 price hike got delayed as demand, although stable post-monsoon, has not picked up significantly for passing on any price hike. The average spot price was Rs330/bag.

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**Figure 1: All-India cement average price was up by ~0.4% q-o-q and down by ~12% yoy in Oct 2024**

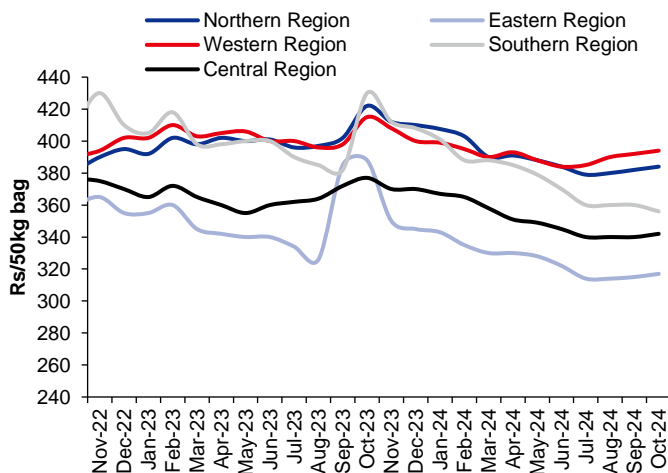


## Oct 2024 flattish; post-festive recovery is key

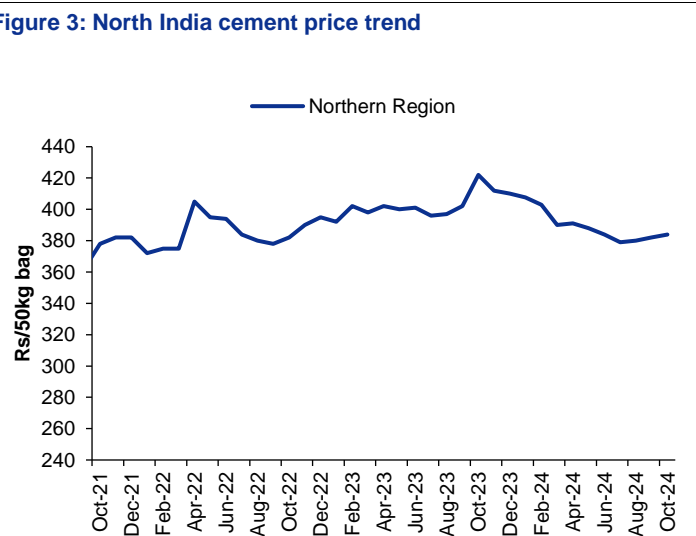
### Cement prices >

- Prices stable m-o-m but below seasonal level:** Cement prices, after being down since mid-Mar 2024, remained stable m-o-m in Oct 2024, but fared worse on a y-o-y basis as a major seasonal price hike is missing this year due to ramp-up of new capacity and below-par government spending. On a pan-India basis, prices remain lower by ~Rs50/bag versus Oct 2023 level. We don't expect any steep price hike to be announced in the next few months, as the expert has indicated that demand will be soft this year along with reports from some regions indicating political interference into price hikes and a few key government projects getting delayed, which may limit the easy transmission of price hikes to consumers in a stable fuel cost environment. Also, price hike post 3QFY25F may be difficult, as most companies are likely to chase their year-end volume target.
- The trade and non-trade gap returns to the normal level:** As per our expert and channel check, the trade and non-trade segment difference varies from region to region, but in the past few years it widened considerably, touching Rs50-60/bag in some regions, like central and eastern regions. However, it has now eased to Rs25-30/bag, returning to the normal level.

Figure 2: Region-wise, cement prices remained stable m-o-m in most regions in Oct 2024

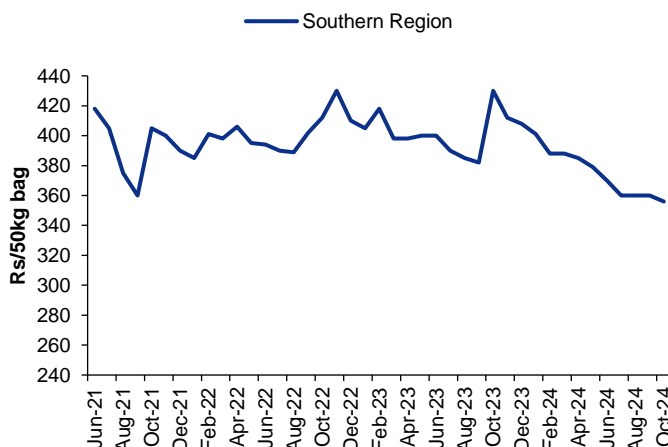


SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK



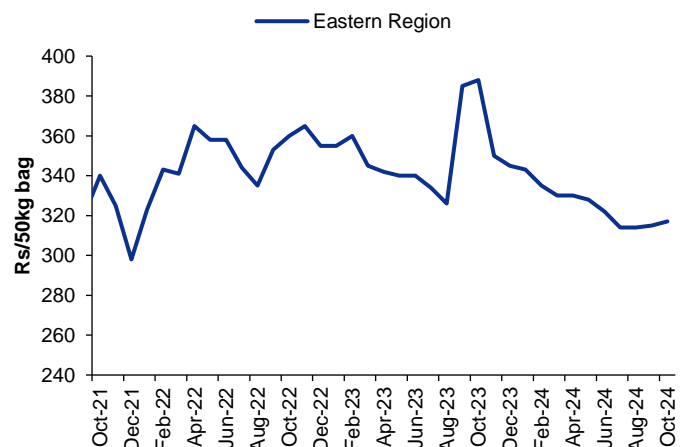
SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 4: Southern region's cement price trend



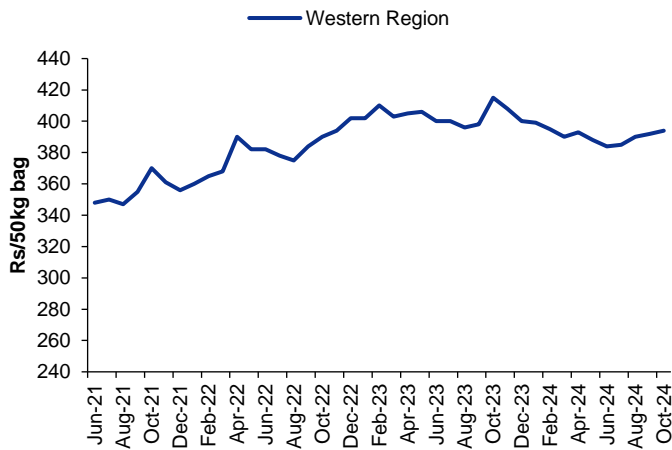
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Figure 5: Eastern region's cement price trend



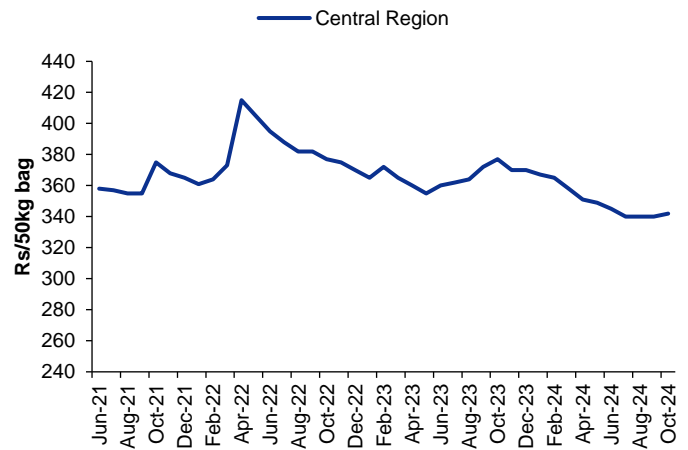
SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 6: Western region's cement price trend



SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

Figure 7: Central region's cement price trend

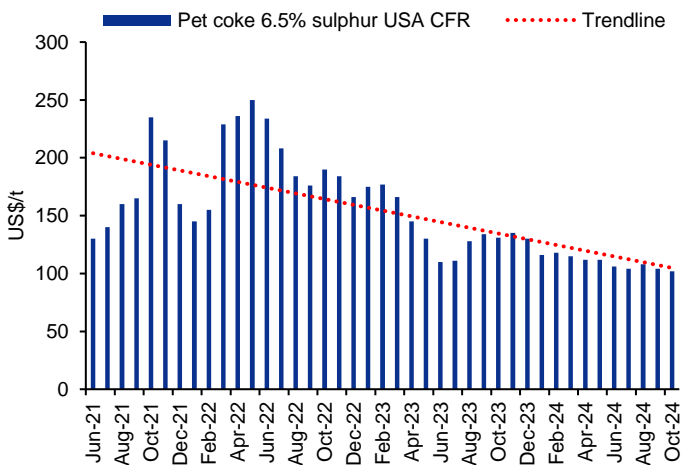


SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

### Major input cost trend ➤

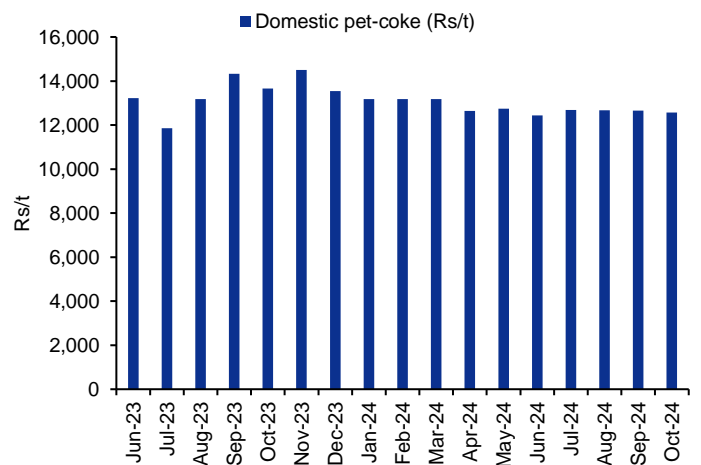
- Overall fuel prices remain stable:** In Oct 2024, international pet-coke prices remained steady at US\$102/t (down by ~12% YTD) while domestic pet-coke prices were around Rs12,550/t, with imported coal prices up 4% vs. 1QFY25 exit prices. Overall, fuel costs remain favourable for the industry, with Brent crude oil prices on the lower side.

Figure 8: International pet-coke prices remain stable...



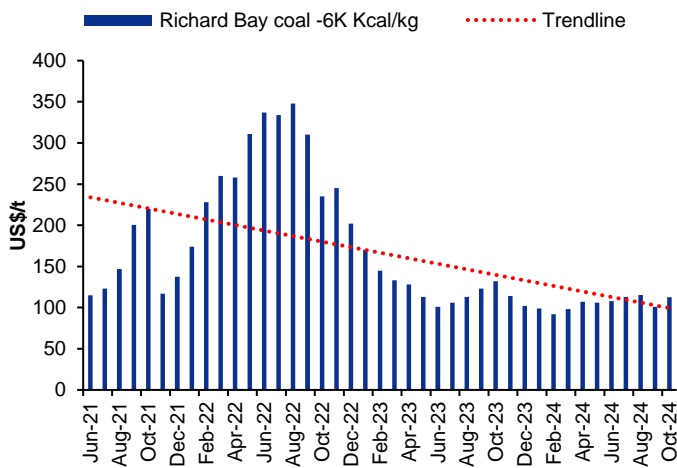
NOTE: CFR = CODE OF FEDERAL REGULATIONS  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: ...and similar is the case with domestic pet-coke prices



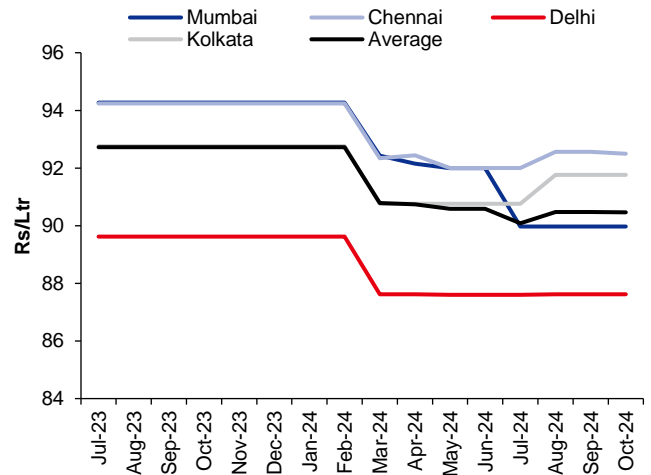
SOURCE: INCRED RESEARCH, BLOOMBERG

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



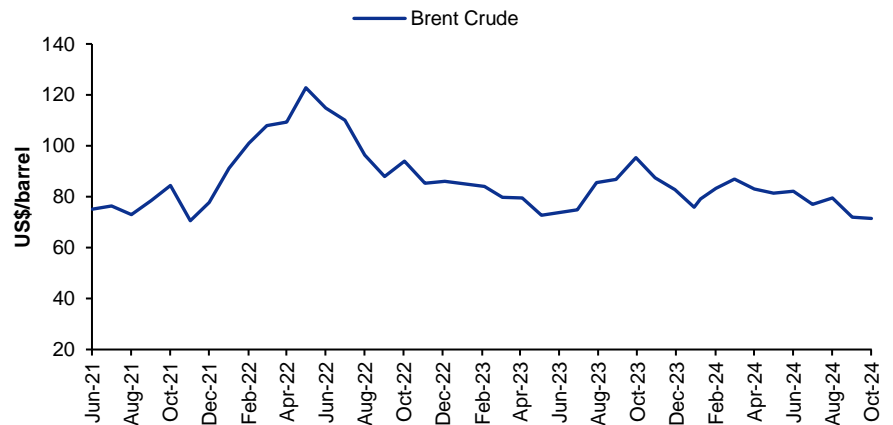
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 11: Average diesel price trend in top metro cities



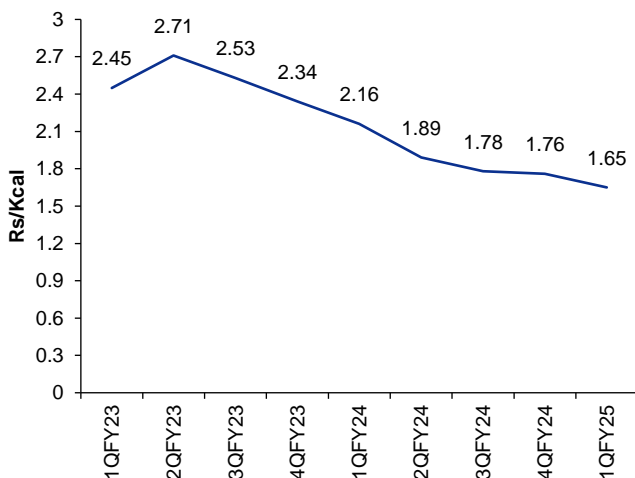
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 12: Crude oil price trend



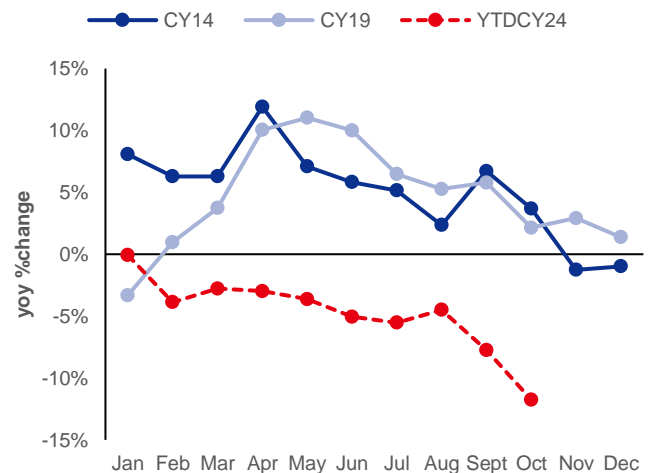
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 13: Average energy cost continues to decline



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Pan-India cement price yoy change during the last three general election years



SOURCE: INCRED RESEARCH, INDUSTRY CHANNEL CHECK

**Figure 15: Cement peer comparison (prices in Rs)**

Company	Bloomberg Ticker	Rating	Closing Price (Rs)	Target Price (Rs)	% 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	UTCEM IN	ADD	11,066	12,190	10%	37,992	24.9	25.8	20.7	5.3	4.9	4.5	12.4%	10.1%	12.3%	44.7	50.8	38.6	144.9	161.1	172.9
ACC	ACC IN	ADD	2,320	2,760	19%	5,182	13.2	14.5	11.2	2.6	2.4	2.2	14.1%	9.1%	10.9%	18.4	27.8	21.1	129.4	122.1	113.2
Ambuja Cements	ACEM IN	ADD	581	700	21%	17,006	30.9	32.8	26.7	3.1	2.6	2.5	7.2%	5.2%	6.0%	47.7	54.0	42.3	189.5	195.0	223.4
Shree Cement	SRCM IN	HOLD	25,072	26,500	6%	10,758	19.1	20.7	17.0	4.4	4.1	3.8	12.2%	7.2%	9.1%	37.8	58.6	43.7	194.0	161.6	145.6
The Ramco Cements	TRCL IN	HOLD	887	870	-2%	2,491	15.8	14.8	12.6	2.8	2.6	2.5	5.7%	6.0%	8.1%	50.1	45.3	31.5	128.7	123.9	117.1
JK Cement	JKCE IN	HOLD	4,322	4,500	4%	3,972	18.4	18.9	16.0	6.3	5.6	5.0	15.8%	13.6%	15.6%	42.2	43.7	34.0	187.0	174.8	143.8
Birla Corporation	BCORP IN	ADD	1,168	1,490	28%	1,070	8.3	11.1	8.5	1.3	1.3	1.2	6.5%	2.4%	5.6%	21.4	54.8	22.9	71.3	71.9	67.4
HeidelbergCement	HEIM IN	HOLD	232	166	-28%	624	15.2	12.4	10.6	3.6	3.5	3.4	11.4%	14.9%	16.9%	31.3	23.7	20.2	92.7	91.7	89.9
Dalmia Bharat	DALBHARA IN	ADD	1,833	2,060	12%	4,089	13.2	14.0	11.5	2.1	2.0	1.9	5.2%	5.2%	6.5%	41.8	40.2	30.2	93.8	90.3	78.8
JK Lakshmi Cement	JKLC IN	ADD	810	955	18%	1,134	10.5	9.9	8.7	3.0	2.6	2.2	15.5%	16.3%	17.0%	20.6	17.0	14.1	80.6	78.8	72.5
Orient Cement	ORCMNT IN	REDUCE	348	320	-8%	847	15.9	13.8	12.0	4.1	3.8	3.5	10.4%	12.0%	13.5%	40.5	32.5	26.8	100.2	97.8	100.9
<b>Mean</b>							<b>16.9</b>	<b>17.2</b>	<b>14.1</b>	<b>3.5</b>	<b>3.2</b>	<b>3.0</b>	<b>10.6%</b>	<b>9.3%</b>	<b>11.0%</b>	<b>36</b>	<b>41</b>	<b>30</b>	<b>128</b>	<b>124</b>	<b>120</b>
<b>Median</b>							<b>15.8</b>	<b>14.5</b>	<b>12.0</b>	<b>3.1</b>	<b>2.6</b>	<b>2.5</b>	<b>11.4%</b>	<b>9.1%</b>	<b>10.9%</b>	<b>41</b>	<b>44</b>	<b>30</b>	<b>129</b>	<b>122</b>	<b>113</b>
<b>Minimum</b>							<b>8.3</b>	<b>9.9</b>	<b>8.5</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>5.2%</b>	<b>2.4%</b>	<b>5.6%</b>	<b>18</b>	<b>17</b>	<b>14</b>	<b>71</b>	<b>72</b>	<b>67</b>
<b>Maximum</b>							<b>30.9</b>	<b>32.8</b>	<b>26.7</b>	<b>6.3</b>	<b>5.6</b>	<b>5.0</b>	<b>15.8%</b>	<b>16.3%</b>	<b>17.0%</b>	<b>50</b>	<b>59</b>	<b>44</b>	<b>194</b>	<b>195</b>	<b>223</b>

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG. PRICED AS AT 31<sup>ST</sup> OCT 2024

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*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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