

Tussle between price hike and demand

Stocks under coverage

ACC	
CMP	1729
TP	2066
Rating	Accumulate
Ambuja Cement	
CMP	345
TP	395
Rating	Accumulate
Orient Cement	
CMP	115
TP	136
Rating	Accumulate
Nuvoco Vista	
CMP	371
Price Objective	420
Rating	Unrated

Source: Arihant Research

NOTE : Target Price given are based on Q3FY23 results

ACC & Ambuja follow Calendar year
CMP is as on Report date

Region wise Cement prices

Region	Jan	Feb	MoM
North	402	417	+3%
South	395	410	+3%
East	375	380	+1%
West	395	395	0
Central	350	365*	+4%

*Prices in some areas of central region were reversed to maintain sales

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Our **Channel Check** with cement dealers across India suggests that average cement price at an all India level has marginally increased on MoM basis in Feb-2023. However, Cement prices in Central India increased by INR 15/bag but the companies had to reverse the prices in few regions due to weakness in demand. Cement price has risen across most of regions except west, where the prices remain unchanged MoM basis.

Cost scenario: continues to decline with imported coal price down by 17.9% MoM in Feb 2023 at ~\$136/t. Freight cost index is up 1% MoM (USD/t) in Feb 2023 and diesel prices at ~INR 95/litre in Feb 2023 which are flattish MoM basis. In Q3FY23 the industry EBITDA/t was ~INR 784/t as compared to ~INR 575/t in Q2FY23, we expect industry EBITDA/t in Q4FY23 to increase further by INR 150/t on account of declining cost and price hikes.

In the last 1 month, Large and mid-cap cement stocks have fallen by -5% and -4% respectively versus nifty which fell by -1% MoM. We expect some improvement in stock performance in coming month on account of decreasing cost pressures, price hikes and better demand scenario.

At CMP, we have accumulate rating for ACC and Ambuja, accumulate rating for Orient cement and have positive outlook for Nuvoco Vista from a long term perspective.

Cement prices: Our channel check suggests, average cement price at an all India level has marginally risen MoM in Feb-2023 except in Western region where we have seen flattish pricing trends MoM. Region wise, price increase is seen in South, Central and East by 3%/4%/1% MoM respectively but price in west remains flat MoM basis. However, as per dealer, in some parts of Central India the prices were reversed back due to weakness in demand.

Cement demand: Cement production in India for the month of Dec 2022 has increased by 9% YoY. Our dealer interaction suggests, supplies for cement has been good but shortage of clinker expected ahead during March 2023, which may hamper production of cement in coming months. Demand in **trade segment** is still weak to flattish on MoM basis as the companies are trying to take price hikes. The demand in **non-trade segment** is good and should pick up further on account of pre-election season and March closing as many companies need to give closure reports for ongoing projects.

Outlook: Overall, as per cement channel check, the demand is currently good only if the prices are not tampered with. The companies have announced price hikes by INR 5-15/bag across all regions apart from western region. The regions where price hikes have been announced, the demand has taken a hit, so right now the market seems to be not too prepared for price hikes. The demand seems to be better in Non-Trade segment as compared to Trade segment and weak demand for premium cement products.

We expect demand to pick up for non-trade in coming month too, as many Government projects would need to get completions before March ending.

The tussle between price hikes and energy costs corrections may lead to some favourable margin recovery, we expect 8-10% volume growth, 10% decline in fuel cost and 1% price hike sequentially which might lead to expansion in industry EBITDA/t by ~INR 150/t QoQ in Q4FY23 to cross INR 930/t.

Source: Arihant Research

Exhibit 1: Financial & other matrix for cement companies

in Mn	Sales			EBIDTA			PAT			EPS			ROCE%			EV/EBITDA x
Companies	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	TTM
Orient	24220	23240	27250	3830	5510	5910	870	2140	2630	4.2	10.4	12.8	11	19	23	14.6
Nuvoco	67930	74890	93180	13010	14600	14990	2490	-260	320	10	NA	0.9	8		4	14.6

in Mn	Sales			EBIDTA			PAT			EPS			ROCE%			EV/EBITDA x
Companies	CY20	CY21	CY22	CY20	CY21	CY22	CY20	CY21	CY22	CY20	CY21	CY22	CY20	CY21	CY22	TTM
ACC	137860	161520	174190	23550	29980	14560	14300	18630	6500	76	100	34	16	19	7	17
Ambuja	245160	28965	30983	50060	62100	38820	31070	37110	22610	12	14	9.7	18	22	11	13.6

Exhibit 2: Cement industry demand and supply matrix

Cement Demand and Supply matrix	FY20	FY21	FY22	FY23E	FY24E	FY25E
Cement Capacity MT	515	529	550	575	615	650
Yearly Capacity addition MT		14	21	25	40	35
Cement Demand MT	330	323	342	380	415	443
All India Cement Utilization	66%	61%	62%	67%	67%	68%

Exhibit 3: Market Share of major cement players

Market Share	FY20
Ultratech Cement	31%
Ambuja Cement	21%
ACC	12%
Ramco	4%
Shree Cement	11%
Dalmia Bharat	8%
Others	13%

Exhibit 4: The volumes for cement industry have gone up by 7% QoQ in Q3FY23

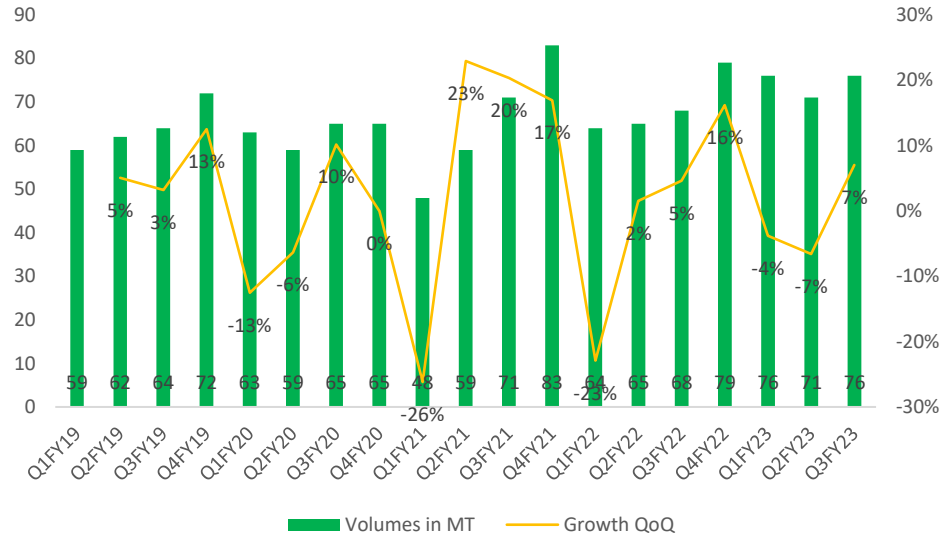


Exhibit 5: Realisations on an average for the industry up in Q3FY23 vs Q2FY23

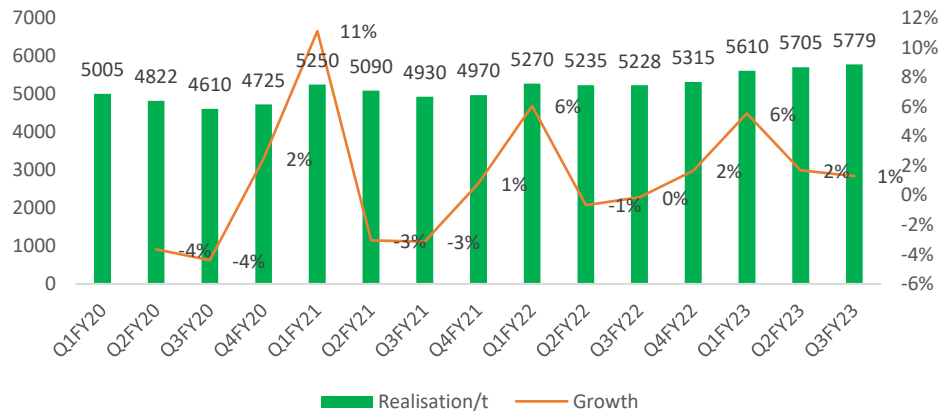
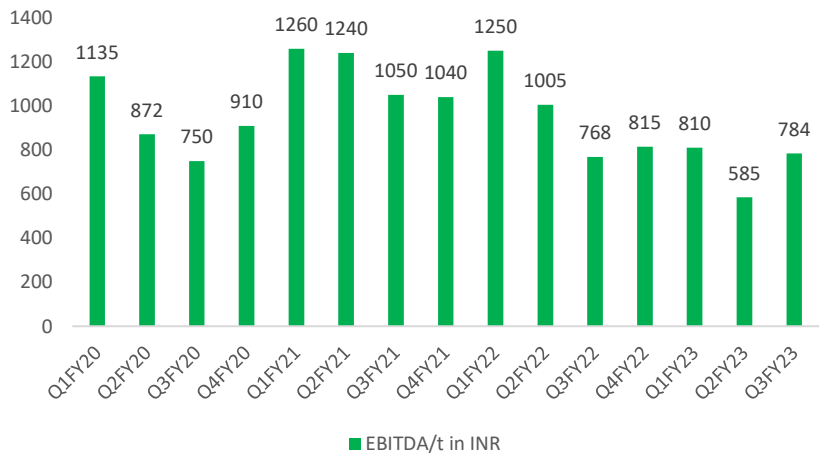
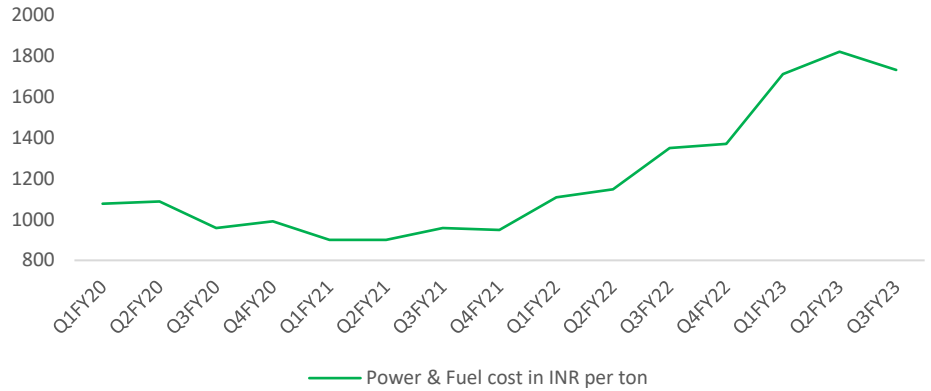


Exhibit 6: Industry EBITDA/t up in Q3FY23 vs Q2FY23 and expected to increase further in Q4FY23



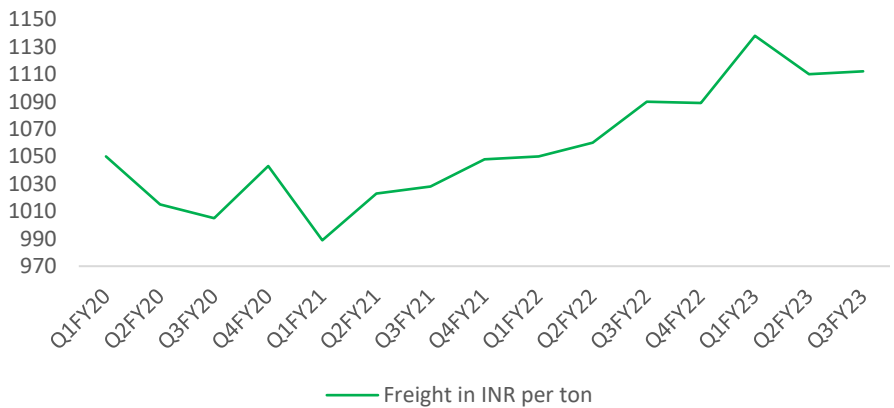
Source: Company, Aриhant Research

Exhibit 7: Power & Fuel costs cooling off, imported coal prices down by 17.9% MoM at INR 136/t in Q3FY23



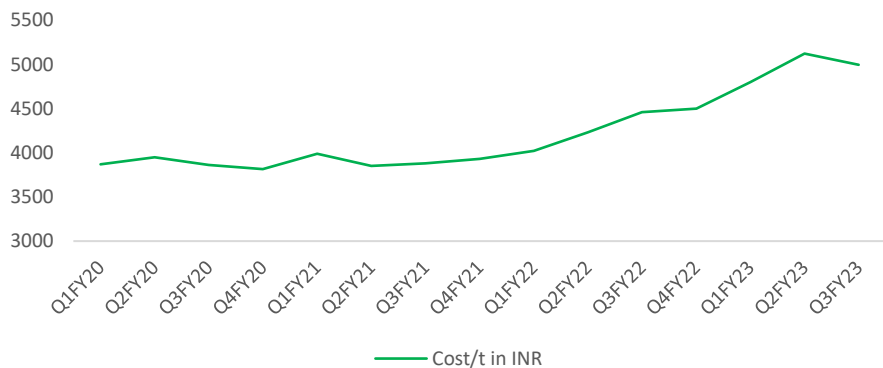
Source: Company, Aриhant Research

Exhibit 8: Freight index increased by 1% MoM (USD/t) in Feb 2023



Source: Company, Aриhant Research

Exhibit 9: Coal prices on downward trend, diesel prices are stable and freight index increased by 1%, so the cost showing some relief which will lead to better profitability.



Source: Company, Aриhant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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