

Cement

Low double-digit volume growth; prices flat MoM in May'18

Reason for report: Monthly volume/price update

Our channel checks suggest industry volumes likely grew in low double-digit YoY in May'18 led by: 1) continued strong demand in the East, 2) improved availability of sand in Uttar Pradesh, Bihar and Tamil Nadu, 3) better non-trade demand in the North, and 4) low base in the South. Pan-India utilisation was likely up 5% YoY at 75% in May'18. While South likely operated at sub-65% utilisation, rest of the regions operated at 80-85%. Average pan-India prices remained broadly flat MoM in May'18 with 1-3% MoM increase in East and West regions being offset by ~1% MoM decline in North, Central and South regions. We believe recent underperformance adequately factors near-term weak earnings (aggregate Q1FY19E EBITDA for I-Sec coverage companies likely down ~10% YoY), recent supply side concerns on fresh capex announcements and corresponding earning downgrades. We maintain our positive stance as we expect gradual improvement in utilisation (refer table 1) / pricing / margins over next few years. SRCM, UTCEM and TRCL remain our preferred picks.

May'18 volumes likely improved in low double-digit YoY to ~28mnte

- **East continues to register strong demand across most states** led by increased IHB, low-cost housing and infrastructure demand. Cement prices continued their positive trend across most markets.
- **Improved sand availability in Uttar Pradesh** and pickup in demand (pre-monsoon) likely resulted in high single-digit volume growth in the Central region during May'18.
- **Volumes in North remained strong** led by higher share of non-trade demand (up from 25% to 45%) owing to improved infrastructure spending despite concern on sand mining ban. Prices in both North and Central region likely declined 1% MoM in May'18.
- **South likely registered strong volume growth on low base** and continued demand momentum in Andhra Pradesh / Telangana along with better volumes in Tamil Nadu on gradual improvement in sand availability. Average prices likely declined 1% MoM.
- **Demand in the West region improved in low-single digit on YoY basis** on better offtake in government infrastructure projects and rural housing. Average prices likely increased 3% MoM largely on better exit prices in Apr'18.

Average pan-India prices in May'18 likely flat MoM / down ~2% YoY: Average prices are likely down 2% YoY in West, 6% YoY in North and South, while being up 3-5% YoY in East and Central regions.

Valuation summary

Company	Rating	TP (Rs/sh)	P/E (x)			EV/EBITDA (x)			EV/t (USD/t)		
			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
UTCEM	BUY	4,960	42.0	35.6	25.2	19.3	16.2	12.4	206	184	163
ACC*	ADD	1,760	27.6	26.3	20.5	11.7	11.4	8.9	99	97	95
ACEM*	BUY	272	27.8	26.1	20.5	12.3	11.9	9.6	116	114	113
SRCM	BUY	20,000	42.4	41.6	29.2	22.7	19.3	14.3	294	222	181
DBEL	ADD	3,070	43.2	33.7	25.8	12.8	12.1	10.3	160	152	137
TRCL	BUY	920	29.8	27.0	21.7	16.5	15.1	11.7	169	163	143
JKCE	BUY	1,170	21.9	24.1	19.0	11.1	11.2	9.8	112	117	107
ICEM	ADD	150	67.1	27.8	15.6	9.2	8.3	6.9	64	64	62
JKLC	BUY	470	92.4	38.5	16.9	13.8	11.0	7.7	72	70	63
ORCMNT	ADD	160	61.9	22.8	14.9	12.0	9.2	7.5	69	66	66
PRSMJ	ADD	130	128.7	50.6	27.3	16.8	12.9	10.0	141	128	109
GRASIM	BUY	1,225	13.2	11.8	9.9	7.7	6.4	5.4	-	-	-

Source: I-Sec research *Dec- year ending

Please refer to important disclosures at the end of this report

Top picks

- Shree Cement
- UltraTech Cement
- The Ramco Cement

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May'18 volumes likely improved in low double-digit YoY to ~28mnte

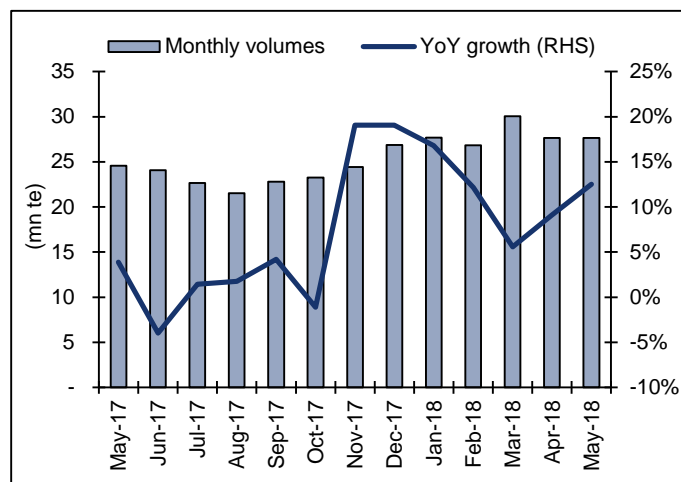
- Our channel checks suggest industry volumes likely grew in low double-digit YoY in May'18 led by: 1) continued strong demand in the East, 2) improved availability of sand in Uttar Pradesh, Bihar and Tamil Nadu, 3) better non-trade demand in the North, and 4) low base in the South.
- Pan-India utilisation was likely up 5% YoY at 75% in May'18. While South likely operated at sub-65% utilisation, rest of the regions operated at 80-85%.
- Average pan-India prices remained broadly flat MoM in May'18 with 1-3% MoM increase in East and West regions being offset by ~1% MoM decline in North, Central and South regions.
- We believe recent underperformance adequately factors near-term weak earnings (aggregate Q1FY19E EBITDA for I-Sec coverage companies likely down ~10% YoY), recent supply side concerns on fresh capex announcements and corresponding earning downgrades.
- We maintain our positive stance as we expect gradual improvement in utilisation / pricing / margins over next few years. SRCM, UTCEM and TRCL remain our preferred picks.

Table 1: Utilisation across regions likely bottomed-out in FY17

Utilisations (%)	FY17	FY18	FY19E	FY20E	FY21E
North	75	77	79	81	81
Central	71	75	77	80	80
East	74	79	82	80	80
West	69	73	75	75	76
South	56	57	60	61	63
All-India	67	70	72	73	74

Source: Industry sources, I-Sec research

Chart 1: May'18 volumes likely increased in low double-digit YoY



Source: I-Sec research

- Pan-India utilisation likely up 5% YoY to 75% in May'18.
- While South operated at sub-65% utilisation, rest of the regions operated at 80-85%.

Average pan-India prices in May'18 likely flat MoM / down ~2% YoY

- Average prices are likely down 2% YoY in West, 6% YoY in North and South, while being up 3-5% YoY in East and Central regions.

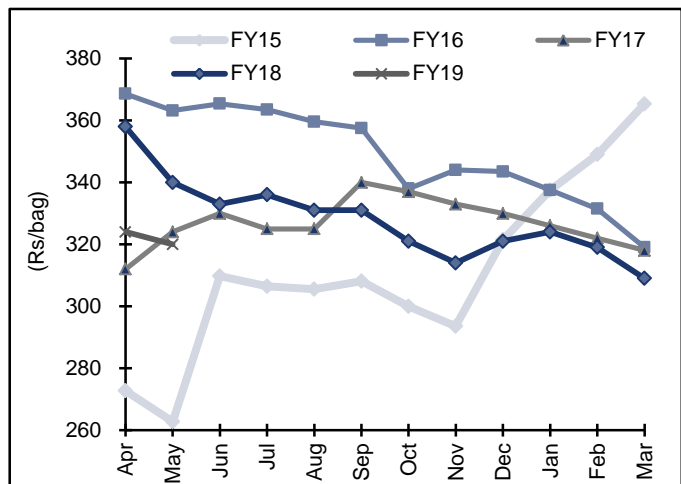
Table 2: Average all-India realisation likely flat MoM / down ~2% YoY

Cement price per bag of 50kg	North	East	West	Central	South	All-India
Avg. May'18	278	317	310	312	320	308
Avg. Apr'18	281	313	301	315	324	308
MoM change (%)	(1.1)	1.3	3.0	(1.0)	(1.2)	0.1
Avg. May'17	297	303	317	303	340	315
YoY change (%)	(6.4)	4.6	(2.2)	3.0	(5.9)	(2.0)

Source: I-Sec research

South region – Strong volume growth YoY on low base; prices down 1% MoM

Monthly price movement



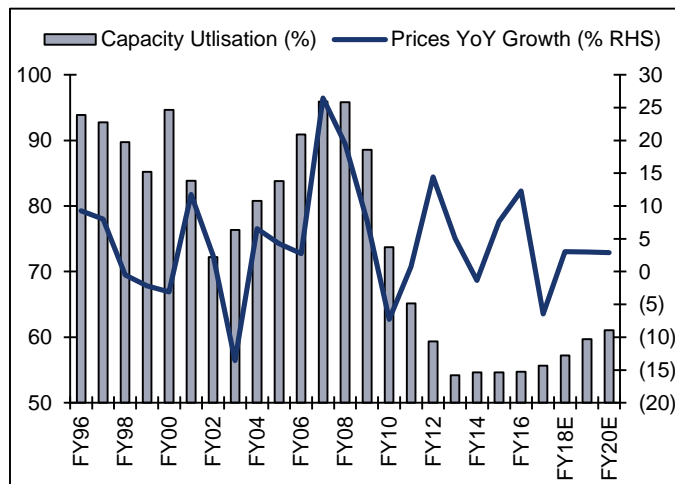
Source: Industry data, I-Sec research

Table 3: Utilisation to increase gradually

	FY17	FY18	FY19E	FY20E	FY21E
Installed capacity	151	153	157	165	168
Effective capacity	151	153	156	161	166
YoY chg (%)	3.3	1.1	2.0	3.7	3.0
Volumes	84	87	93	99	105
Utilisation (%)	56	57	60	61	63
YoY change (%)	5.0	4.0	7.0	6.0	6.0

Source: Industry data, I-Sec research

Utilisation/pricing in South region



Source: Industry data, I-Sec research

Table 4: Few capacity additions expected over FY19E-FY21E

Company	CoD	FY17	FY18	FY19E	FY20E	FY21E
Chettinad	Dec-19				3.0	
DBEL	Mar-16					
JSW	Jun-17		1.5			
KCP	Apr-19					1.7
My Home	Apr-19					1.0
NCL	Sep-17		0.7			
ORCMNT	Sep-15					
TRCL	Apr-16	0.8				
SGC	Dec-16	0.3				
SGC	Jun-18			1.2		
SGC	Sep-19					0.5
SRCM	Sep-18			3.0		
TANCEM	Dec-19					1.0
Zuari	Sep-20					3.2
Total		1.1	2.2	4.2	7.2	3.2

Source: Company, I-Sec research

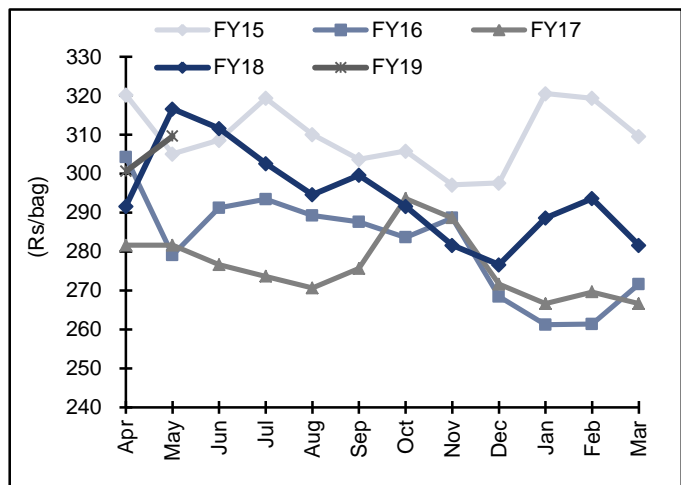
- South likely registered strong volume growth on low base and continued demand momentum in Andhra Pradesh / Telangana and better volumes in Tamil Nadu on gradual improvement in sand availability.
- Demand in the region is expected to improve on the back of pickup in infrastructure spends low-cost housing and irrigation projects in Telangana, and revival of demand in Tamil Nadu on receding impact of the sand mining issue.
- Average prices in South declined by 1% MoM and 6% YoY in May'18. Prices in May'18 were in the range of Rs230-280/bag in Andhra Pradesh / Telangana; Rs320-340/bag in Tamil Nadu, Rs290-310/bag in Karnataka and Rs340-360/bag in Kerala.

Pricing outlook:

- Despite low utilisation, prices in South are likely to remain high compared to the other regions owing to production discipline, relatively high cost structure and high leverage of companies based in the region.
- We factor a lower realisation CAGR of 3.4% over FY18-FY20 for the South region.

West region – Demand improved in low-single digit YoY; prices up ~3% MoM

Monthly price movement



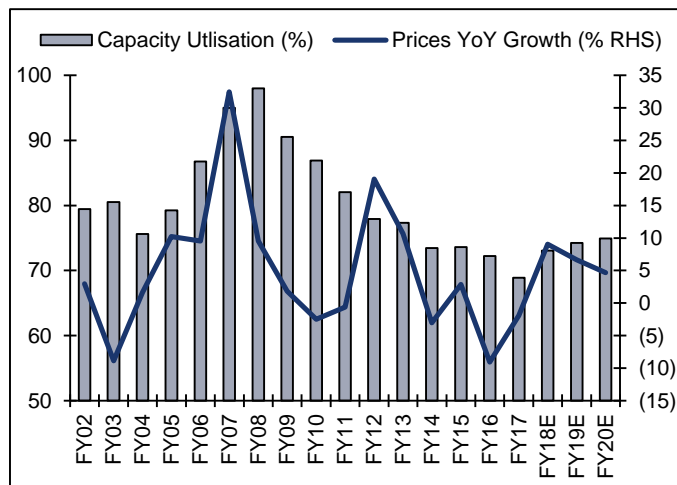
Source: Industry data, I-Sec research

Table 5: Utilisation in West to increase to 76% by FY21E

	FY17	FY18	FY19E	FY20E	FY21E
Installed capacity	57	57	60	62	66
Effective capacity	55	56	57	59	62
YoY chg (%)	1.2	1.9	2.3	4.0	4.6
Volumes	38	41	42	45	47
Utilisation (%)	69	73	75	75	76
YoY change (%)	(3.5)	8.0	4.5	5.0	5.0

Source: Industry data, I-Sec research

Utilisation / pricing in West region



Source: Industry data, I-Sec research

Table 6: Few capacity additions expected over FY19E-FY21E

Company	CoD	FY17	FY18	FY19E	FY20E	FY21E
JKCE	Mar-20				0.7	
JKLC	Dec-16	1.4				
JSW	Sep-18			0.6		
SNGI	Dec-20					4.0
SRCM	Sep-18			2.0		
Wonder	Sep-19				2.0	
Total		1.4	-	2.6	2.7	4.0

Source: Company, I-Sec research

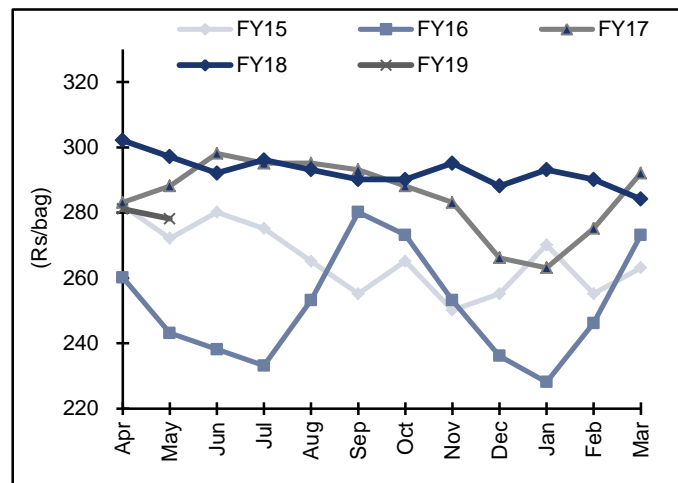
- Demand in West region improved in low-single digit on YoY basis on better demand growth in Maharashtra led by higher offtake in government infrastructure projects and rural housing. Volumes in Gujarat also likely grew in low single-digit YoY in May'18.
- Normal monsoon for the second consecutive year in Maharashtra is likely to lead to good demand for rural housing. Infrastructure spend is expected to be strong in both the states due to pickup in DFC, Mumbai metro, many road and irrigation projects and impending elections in Maharashtra in Sep'19.
- Average prices were likely up 3% MoM largely on better exit prices in Apr'18.
- Prices in May'18 stood at ~Rs270-290/bag in Gujarat and Pune, and Rs310-330/bag in Mumbai.

Pricing outlook

- Average cement prices have increased 7% YoY FY18 after diving to a 6-year low in FY17.
- We factor a realisation CAGR of 5.0% over FY18-FY20 for the West region.

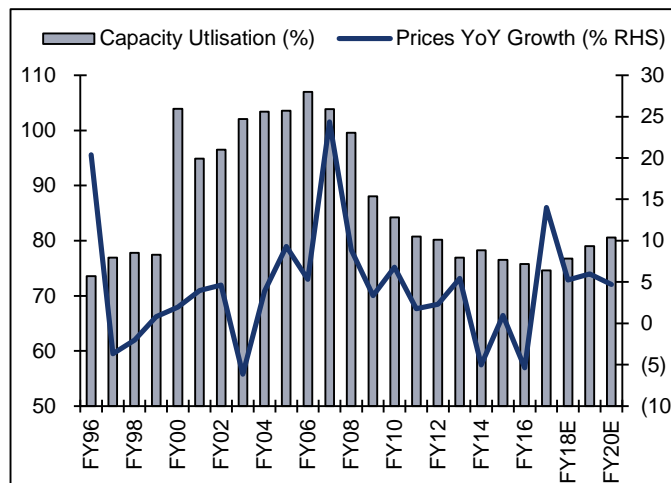
North – Volumes likely to be up in low double-digit YoY; prices down 1% MoM

Monthly price movement



Source: I-Sec research

Utilisation / pricing in North



Source: I-Sec research

Table 7: Utilisation to rise to 81% by FY20E

	FY17	FY18	FY19E	FY20E	FY21E
Installed capacity	96	100	100	102	107
Effective capacity	95	96	100	101	106
YoY chg (%)	3.6	1.8	3.4	1.0	5.2
Volumes	71	74	78	82	86
Utilisation (%)	75	77	79	81	81
YoY change (%)	2.0	4.7	6.0	4.0	5.0

Source: Industry data, I-Sec research

Table 8: Capacity addition not expected in FY19E

Company	CoD	FY17	FY18	FY19E	FY20E	FY21E
ACEM	Sep-20					1.5
JKCE	Sep-19				2.0	
JKLC	Mar-17	1.4				
SRCEM	Feb-18		3.6			
UTCCEM	Apr-20					3.5
Total		1.4	3.6	-	2.0	5.0

Source: Company, I-Sec research

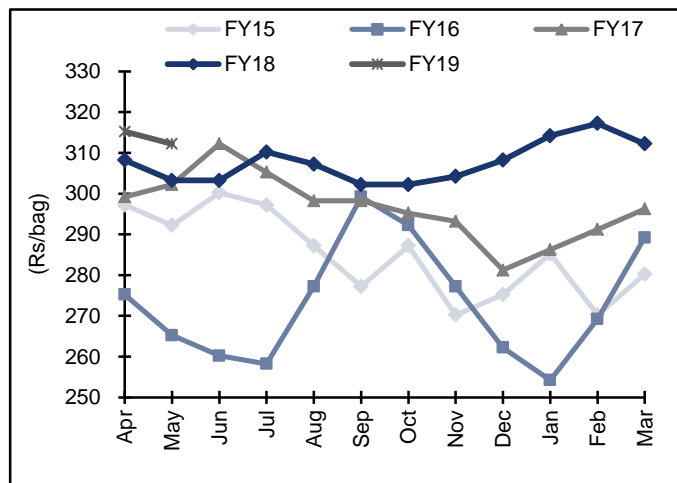
- Volumes in North remained strong led by higher share of non-trade demand (up from 25% to 45%) owing to improved infrastructure spending despite concern on sand mining ban.
- Infrastructure spending is expected to improve due to pick up in Dedicated Freight Corridor (DFC) and many road and irrigation projects owing to impending elections in three states (Rajasthan, Haryana and Delhi) by FY20.
- Prices likely down 1% MoM and 6% YoY in May'18.
- Cement prices stood at Rs290-310/bag in Delhi; Rs300-320/bag in Punjab and Rs230-250/bag in Jaipur.

Pricing outlook

- Average prices in FY17 increased by ~14% YoY after diving to a 5-year low in FY16 due to drop in utilisation. It further increased by 2% in FY18 on improved demand and cost escalations.
- We factor a realisation CAGR of 5.0% over FY18-FY20; however, absolute cement prices in the North will still be lower than in the South.

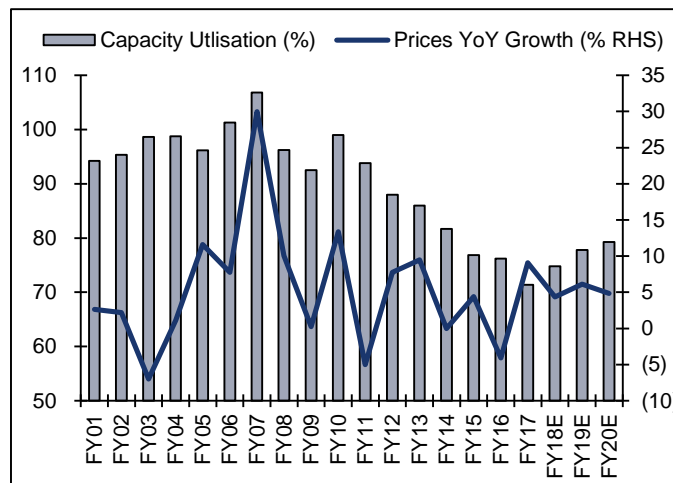
Central – Volumes likely grew in high-single digit YoY; prices down ~1% MoM

Monthly price movement



Source: Industry data, I-Sec research

Utilisation/pricing in Central region



Source: Industry data, I-Sec research

Table 9: Utilisation to increase by 500bps in next two years

	FY17	FY18	FY19E	FY20E	FY21E
Installed capacity	53	53	61	62	64
Effective capacity	53	53	56	60	64
YoY chg (%)	3.3	-	5.9	7.8	5.8
Volumes	38	40	43	48	51
Utilisation (%)	71	75	77	80	80
YoY change (%)	(3.2)	4.8	9.5	10.9	6.1

Source: Industry data, I-Sec research

Table 10: Only UTCEM is expanding capacities in FY19

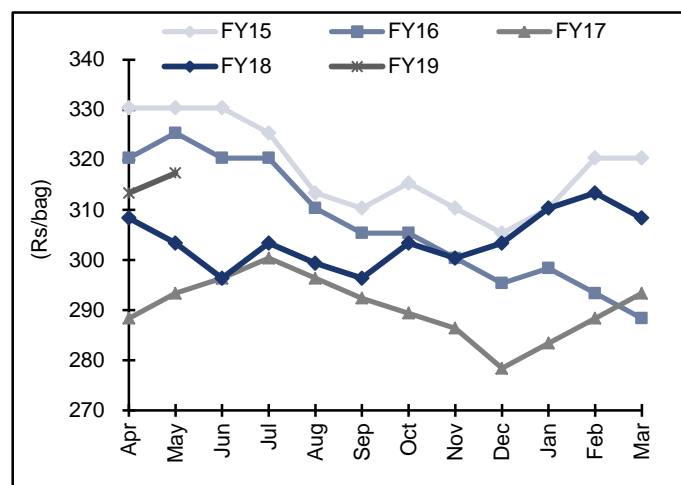
Company	CoD	FY17	FY18	FY19E	FY20E	FY21E
JKCE	Mar-20					1.5
UTCEM	Dec-18			2.0		
UTCEM	Mar-19			2.0		
UTCEM	Apr-18			1.8		
UTCEM	Mar-19			1.8		
Wonder	Apr-20					2.0
Total		-	-	7.6	1.5	2.0

Source: Company, I-Sec research

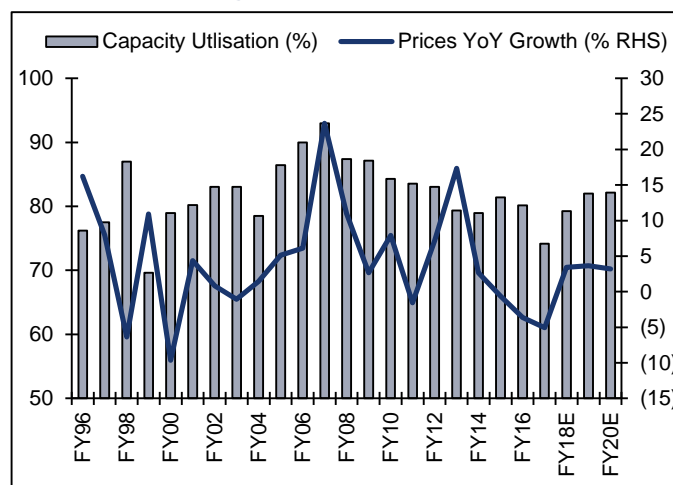
- Improved sand availability in Uttar Pradesh and pickup in demand (pre-monsoon) likely resulted in high single-digit volume growth in the Central region during May'18.
- Infrastructure spending is expected to improve, especially due to various road and irrigation projects and impending elections in Madhya Pradesh in Dec'18.
- Average prices likely down by ~1% MoM; while being up 3% YoY in May'18.
- Prices were in the range of Rs270-290/bag in Indore and Rs290-310/bag in Lucknow and Bhopal.

Pricing outlook

- Average prices in the Central region increased 9% YoY in FY17 after remaining flat over FY15-FY16 owing to drop in utilisation. Prices further increased by 4% YoY in FY18.
- Consolidation in the region with UTCEM acquiring JPA plants and BCORP acquiring Reliance Cement will aid pricing discipline.
- We factor a realisation CAGR of 4.5% over FY18-FY20; however, absolute cement prices in the Central region will still be lower than in the South.

East – Volumes likely to be up in low-double digit YoY; prices up 1% MoM**Monthly price movement**

Source: Industry data, I-Sec research

Utilisation/pricing in East

Source: Industry data, I-Sec research

Table 11: Utilisation to broadly remain flat by FY21E despite significant capacity additions

	FY17	FY18	FY19E	FY20E	FY21E
Installed capacity	77	82	86	96	103
Effective capacity	71	79	82	91	101
YoY chg (%)	13.5	10.4	4.4	10.9	10.4
Volumes	53	62	67	73	80
Utilisation (%)	74	79	82	80	80
YoY change (%)	5.0	18.0	8.0	8.0	10.0

Source: Industry data, I-Sec research

Table 12: More grinding unit additions expected in FY20E

Company	CoD	FY17	FY18	FY19E	FY20E	FY21E
ACC	Oct-16	2.5				
Emami	Dec-16	2.5				
Emami	Mar-17	2.0				
Emami	Mar-19			2.0		
Emami	Sep-19				1.8	
JKLC	Apr-17		1.0			
JKLC	Apr-19				0.6	
JSW	Dec-17		1.2			
JSW	Mar-19			0.6		
OCL	Dec-20					2.6
STAR	Apr-20					1.0
TRCL	Dec-18			1.1		
TRCL	Jun-19				1.1	
TRCL	Dec-19				0.9	
SRCM	Jun-15					
SRCM	Jun-16	1.6				
SRCM	Sep-17		0.9			
SRCM	Feb-18		2.0			
SRCM	Apr-19				3.0	
SRCM	Mar-20				3.0	
SRCM	Apr-20					3.0
Total		8.6	5.1	3.7	10.4	6.6

Source: Company, I-Sec research

- East continues to register strong demand across most states led by increased IHB, low-cost housing and infrastructure demand.
- New entrants – Emami Cement and JSW Cement – have likely started pushing volumes aggressively in the non-trade segment, especially in West Bengal.
- Demand in the region is expected to remain robust in coming years on better housing demand, higher infrastructure spends and receding impact of sand mining issues in Bihar.
- Prices in the East across most states increased by 1% MoM in May'18. Average prices hovered around Rs330-350/bag in Bihar, Rs300-330/bag in Odisha and West Bengal and Rs220-260/bag in Chhattisgarh.

Pricing outlook

- We factor ~5% realisation CAGR over FY18-FY20 for the East region backed by strong demand growth and improving utilisation.

Recent underperformance an opportunity to accumulate in our view

- We believe recent underperformance adequately factors near-term weak earnings (aggregate Q1FY19E EBITDA for I-Sec coverage companies likely down ~10% YoY), recent supply side concerns on fresh capex announcements and corresponding earning downgrades.
- We maintain our positive stance as we expect gradual improvement in utilisation / pricing / margins over next few years. SRCM, UTCEM and TRCL remain our preferred picks.

Table 13: Recent underperformance an opportunity to accumulate in our view

	Absolute performance (%)			Relative to Sensex (%)		
	1m	3m	YoY	1m	3m	YoY
UTCEM	(8.3)	(11.0)	(7.1)	(8.5)	(16.1)	(21.5)
ACC	(9.9)	(18.9)	(18.2)	(10.1)	(24.1)	(32.6)
ACEM	(5.2)	(15.5)	(12.0)	(5.4)	(20.7)	(26.4)
SRCM	1.3	(3.4)	(8.4)	1.1	(8.6)	(22.8)
DBEL	(8.3)	(12.5)	2.2	(8.4)	(17.6)	(12.2)
ICEM	(14.5)	(24.2)	(44.5)	(14.7)	(29.4)	(59.0)
TRCL	(12.1)	(2.9)	4.3	(12.2)	(8.0)	(10.1)
JKCE	(4.3)	(8.8)	(11.8)	(4.5)	(14.0)	(26.3)
JKLC	(13.4)	(21.3)	(30.8)	(13.6)	(26.4)	(45.2)
ORCMNT	(6.2)	(19.2)	(21.9)	(6.4)	(24.4)	(36.3)
PRSMJ	(0.7)	(7.4)	(10.6)	(0.9)	(12.5)	(25.1)
GRASIM	(5.8)	(7.6)	11.2	(6.0)	(12.8)	(3.2)

Source: Bloomberg

Key assumptions:

Table 14: Volume growth assumptions over FY17-FY20E

	Total volumes (mnte)				Growth YoY (%)			
	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
UTCEM	53.4	64.3	75.1	83.8	1.4	20.4	16.9	11.6
ACC	23.2	26.2	27.1	28.0	(2.8)	13.1	3.5	3.3
ACEM	21.6	23.0	23.9	24.9	(1.1)	6.7	4.0	4.0
SRCM	20.6	22.5	26.4	30.6	10.8	9.5	17.0	16.0
DBEL	15.3	17.0	19.2	21.7	18.0	10.9	13.0	13.0
ICEM	11.0	11.2	11.8	12.4	10.1	1.2	5.7	5.0
JKCE	8.2	9.8	10.3	11.3	0.9	19.1	5.4	9.5
TRCL	8.3	9.3	10.3	11.7	16.0	11.5	11.0	13.0
JKLC	7.9	9.4	10.2	11.0	8.5	18.5	8.0	8.0
ORCMNT	5.6	5.7	6.1	6.4	25.7	3.5	5.5	5.5
PRSMJ	5.4	5.6	5.9	6.1	2.3	4.3	4.0	4.0
Total	180.5	204.0	226.2	247.8	0.1	13.0	10.9	9.5

Source: Company data, I-Sec research

Table 15: Realisation growth assumptions over FY17-FY20E

	Realisation (Rs/te)				Growth YoY (%)			
	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
UTCEM- grey cement	4,139	4,324	4,498	4,701	(0.0)	4.5	4.0	4.5
UTCEM- blended	4,703	4,821	4,939	5,121	(2.1)	2.5	2.5	3.7
ACC - blended	4,722	4,934	5,092	5,308	(1.5)	4.5	3.2	4.2
ACC - grey cement	4,386	4,583	4,731	4,931	(2.7)	4.5	3.2	4.2
ACEM	4,256	4,450	4,545	4,777	(0.5)	4.6	2.1	5.1
SRCM	3,747	4,172	4,266	4,458	7.3	11.3	2.3	4.5
DBEL - cement	4,561	4,821	4,893	5,040	(2.5)	5.7	1.5	3.0
ICEM	4,435	4,670	4,675	4,839	(1.9)	5.3	0.1	3.5
JKCE- blended	4,813	4,916	5,077	5,258	4.0	2.1	3.3	3.6
TRCL	4,641	4,637	4,753	4,919	(5.7)	(0.1)	2.5	3.5
JKLC	3,676	3,981	4,200	4,431	2.2	8.3	5.5	5.5
ORCMNT	3,369	3,868	4,061	4,264	(0.9)	14.8	5.0	5.0
PRSMJ	3,713	4,206	4,501	4,703	(3.1)	13.3	7.0	4.5
Weighted average	3,903	4,110	4,218	4,382	(1.5)	5.3	2.6	3.9

Source: Company data, I-Sec research

Table 16: EBITDA/te growth assumptions over FY17-FY20E

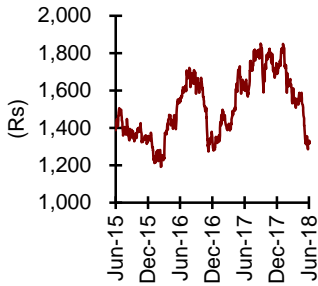
	EBITDA/te* (Rs)				Growth YoY (%)			
	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
UTCEM - consolidated	977	956	952	1,076	5.1	(2.1)	(0.4)	13.0
ACC	613	717	692	807	4.5	16.9	(3.5)	16.7
ACEM	780	824	829	945	11.1	5.5	0.6	14.1
SRCM	1,145	1,073	1,039	1,151	45.6	(6.3)	(3.2)	10.8
DBEL	1,244	1,195	1,117	1,168	2.1	(3.9)	(6.5)	4.5
ICEM	798	639	665	745	(6.2)	(20.0)	4.1	12.1
JKCE	880	807	792	871	36.3	(8.3)	(1.8)	10.0
TRCL	1,383	1,129	1,160	1,252	(9.0)	(18.3)	2.7	8.0
JKLC	465	459	518	655	25.6	(1.4)	13.0	26.2
ORCMNT	321	531	636	737	(22.7)	65.6	19.7	15.8
PRSMJ	566	619	719	838	18.7	9.3	16.1	16.6
Weighted average	880	865	867	978	12.9	(1.7)	0.1	12.9

Source: Company data, I-Sec research; *including other operating income

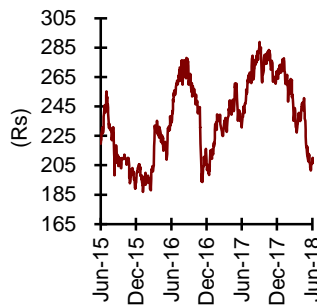
Note: We are not changing any reco, target and estimates in this report.

Price charts

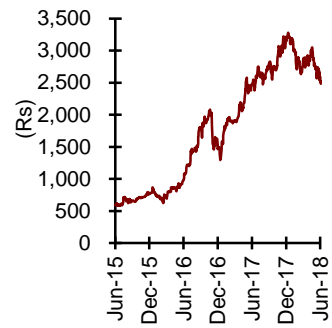
ACC



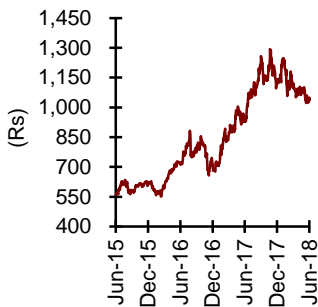
Ambuja Cement



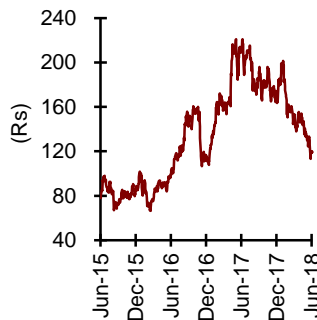
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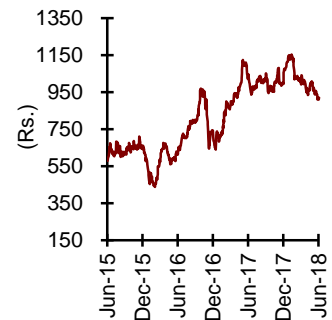
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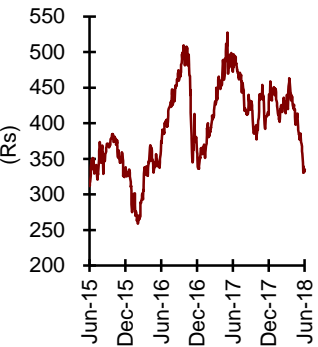
India Cement



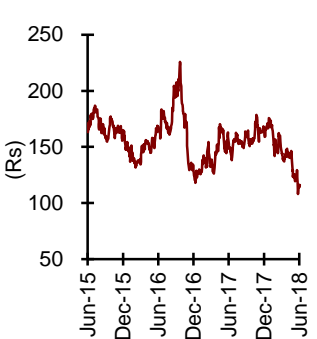
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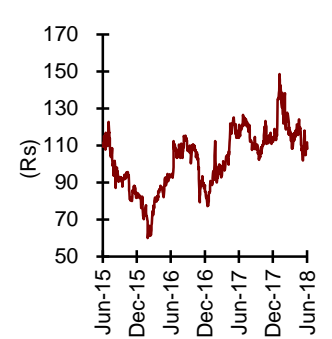
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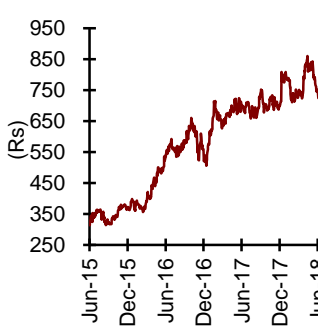
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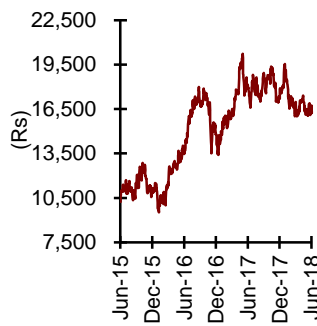
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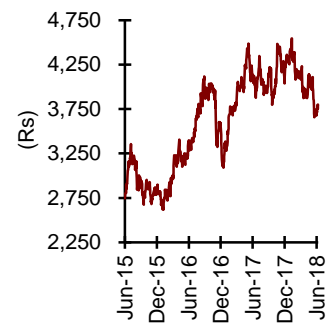
Ramco Cement



Shree Cement



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