

Cement

Expert meet takeaways

Sector Report

Sector Update

September 18, 2023

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Key takeaways from the cement expert meeting include: 1) Nearly 65-70mt of cement capacity additions are expected over the next couple of years (~6% CAGR); with >80% capacity additions likely by the top-6 players; 2) after high capacity additions for 3-4 years, the industry is likely to witness little slowdown for at least for a couple of years; 3) 18-20% capex cost additions (~US\$18-20/ton) are likely over the past 2-3 years, mainly led by a 5-7% each increase due to general inflation and modernization of equipment, while the balance is led by the increase in the cost of land acquisition; 4) consistent supply of waste material is a key to increase the usage of alternate fuel (AFR) in the fuel mix.

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Other Key takeaways:

- The industry is likely to witness nearly 65-70mt of cement capacity additions over FY23-25E (~6% CAGR), with >80% capacity additions likely to be by the top-6 players. Larger players now prefer to order equipment on a piecemeal basis (based on limestone quality, raw mix composition etc.), which helps to improve the overall efficiency of the plant and reduce maintenance/ repair cost. As per experts, after high capacity additions for 3-4 years, the industry may witness a little slowdown in capacity additions at least for a couple of years. To recap, the Indian cement industry has added ~18mt of capacity p.a. over FY17-22.
- The lifecycle for the equipment stands at around 30-35 years, with major upgradation every 7-8 years at 5-6% of capex cost. With increasing focus on 'Make in India' campaign, the share of imported components in a piece of equipment has declined to 35-40% from 70-75% a decade back. A greenfield plant having a capacity of 2mt/3mt of clinker/cement costs Rs28-30bn (US\$115-120/ton), with 30-35% each cost comprising land and main equipment.
- As per experts, Chinese equipment has two major advantages vs. European equipment 1) as its capex is 30-35% lower as available in standard sizes with mass production; 2) lead time for the supply of equipment is 10-12 months lower. However, over the lifecycle of a plant, these advantages are more than offset through lower efficiency of the plant, increased shutdowns and limited after-sales services.
- Indian cement companies are targeting to reach zero carbon emission norms in the next 15-20 years by increasing the usage of renewables, AFR, and improving raw mix composition to reduce clinker consumption. The industry is targeting to increase the usage of AFR to mid-teens in the next 2-3 years vs. the current usage in mid-teens in the overall fuel mix. Feeding system in the plant for the usage of AFR costs only Rs300-350mn. However, the consistent supply of waste material remains a key challenge.

Summary of Ratings, TPs and Valuations

Company	Rating	TP (Rs)	EV/EBITDA (x)		EV/Ton (USD)	
			FY25E	FY26E	FY25E	FY26E
UltraTech	Buy	9,250	15.7	13.8	193	181
Shree Cement	Hold	25,000	16.4	13.6	148	145
Ambuja	Hold	480	14.7	11.5	198	167
Dalmia	Hold	2,125	13.7	11.5	120	113
ACC	Buy	2,300	10.4	9.2	101	89
Ramco	Hold	880	12.8	11.1	133	113
JK Cement	Hold	2,800	10.5	8.5	123	111
Birla Corp.	Buy	1,450	8.2	7.2	80	63
Sagar Cement	Hold	220	10.2	8.1	48	48
Star Cement	Hold	165	10.0	8.2	81	80

Source: Emkay Research

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HOLD	Between -5% to 15%
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