

Trust.  
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# CEMENT SECTOR OUTLOOK

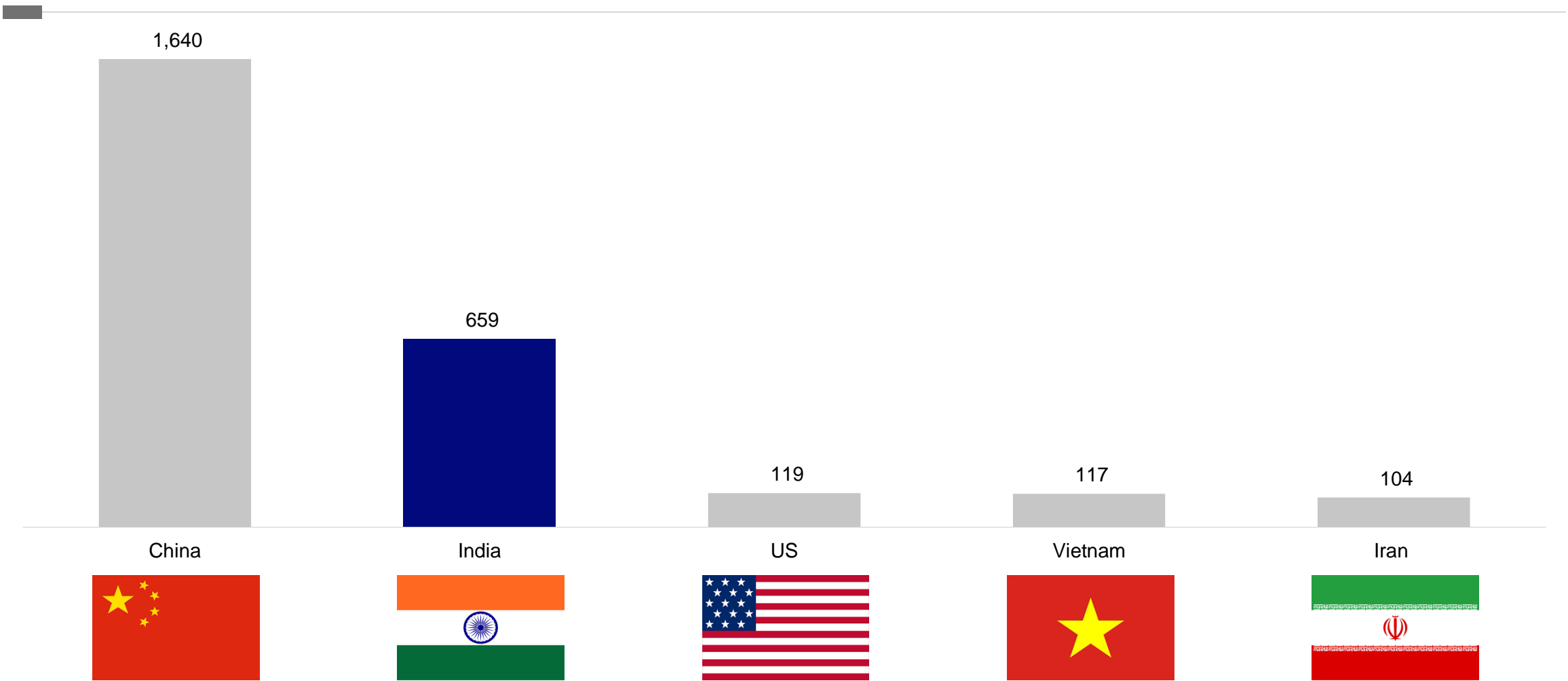
December 2024



# Did you know- India is the 2<sup>nd</sup> largest cement market



Installed Grinding Capacity (MT)



# Did you know – Cement is one of the few sectors in India where top players are promoter led...



# Did you know - Cement is one of the cheapest commodity in India

Cement - INR 5-7/kg



Sugar - INR 38-40/kg



Steel - INR 45-55/kg



Tomato - INR 40-50/kg

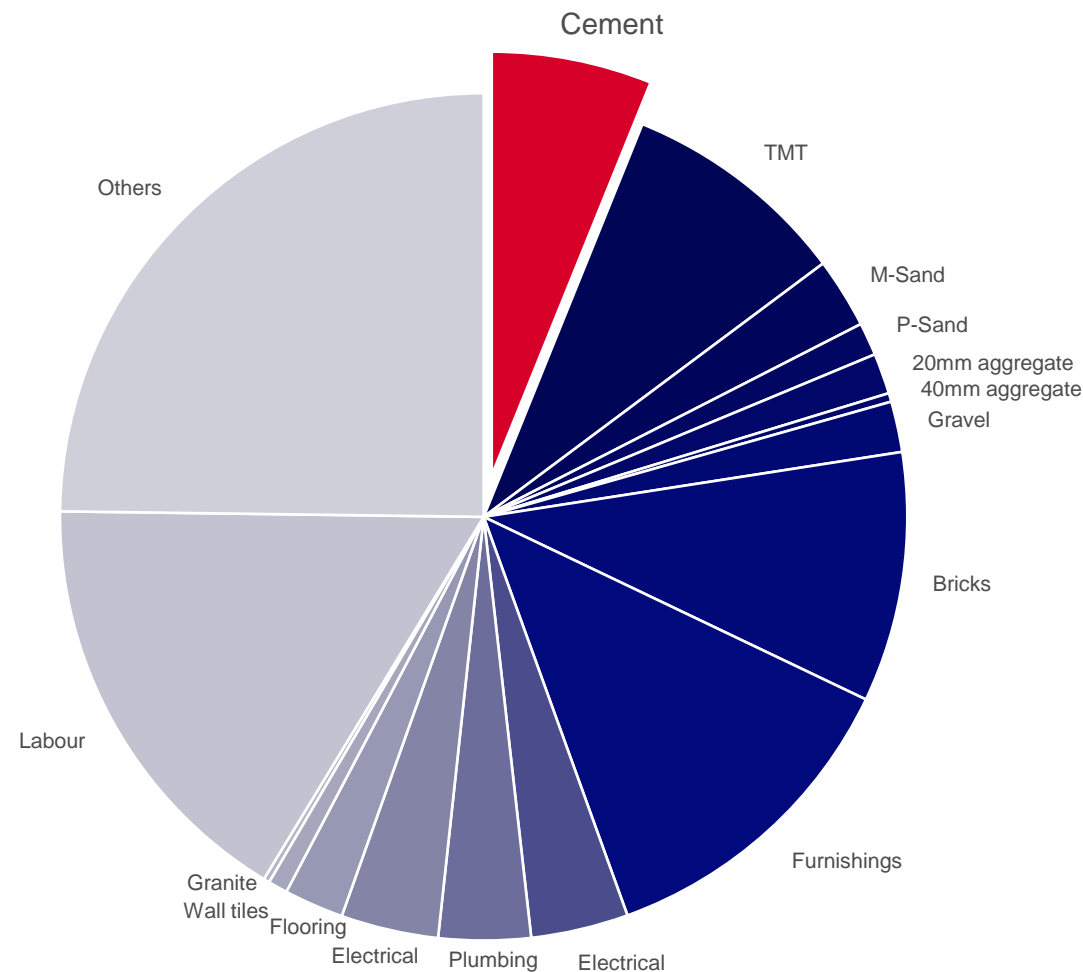


Milk - INR 50-60/kg



# Did you know - Cement only accounts for 6% of cost of making a house

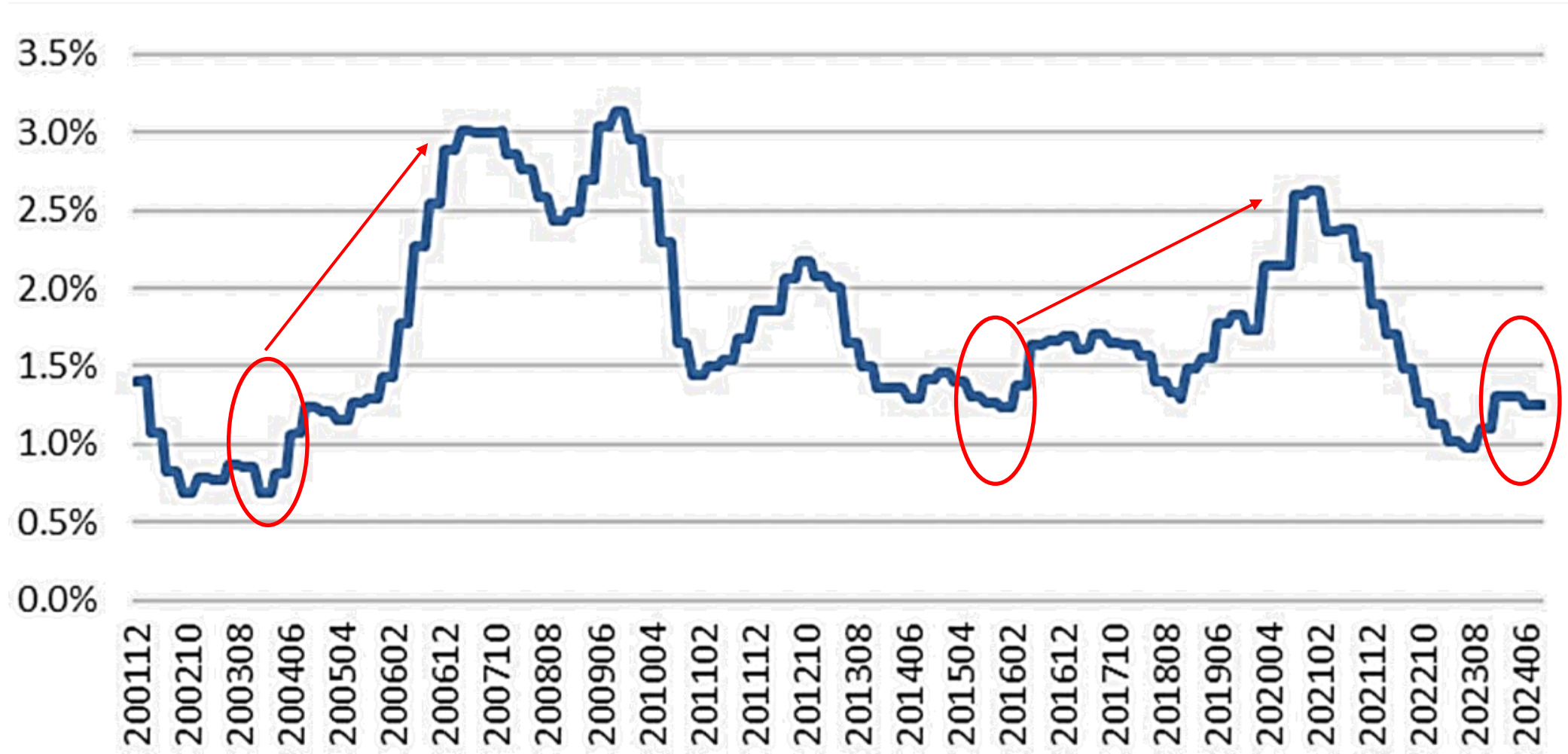
## Estimated cost components in building a 1,000 sqft house



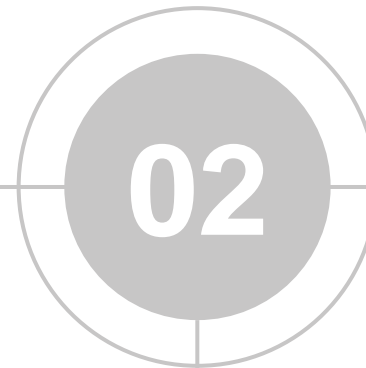
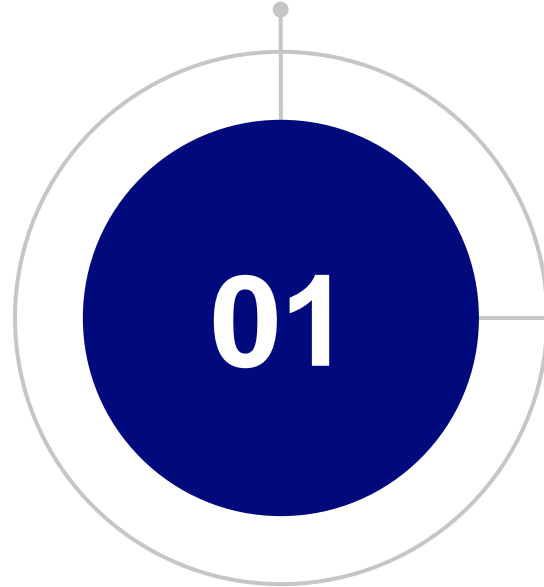


# Did you know - Share of cement in profit pool is at decadal lows

## Cement Profit Pool Share

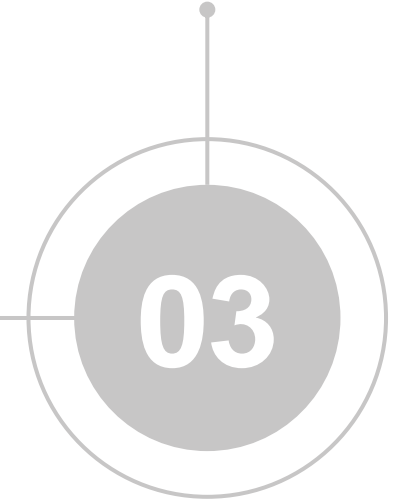


## KAL AUR AAJ (Yesterday and Today)



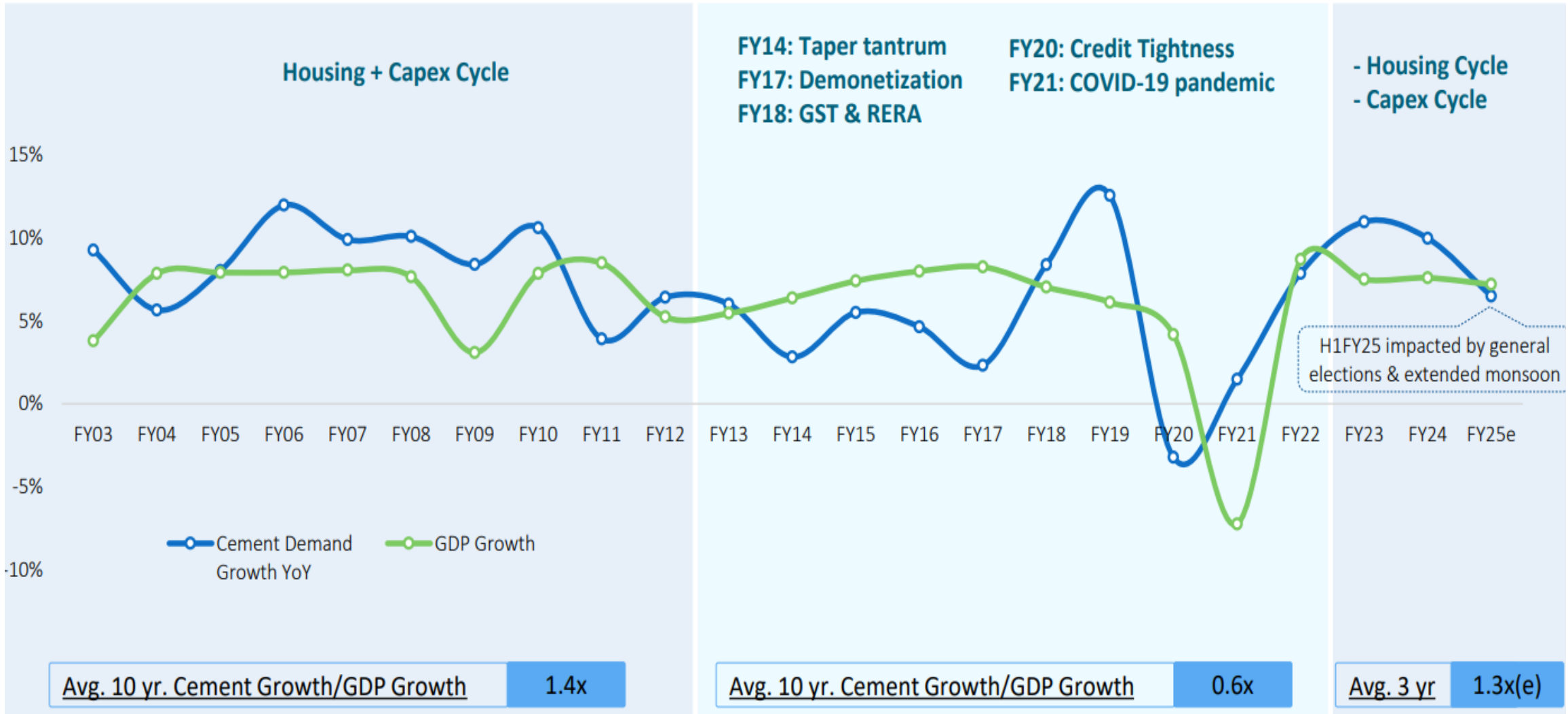
## KAL (Tomorrow)

## Our View on the Cement Sector



# Cement demand has generally trended in line with GDP growth

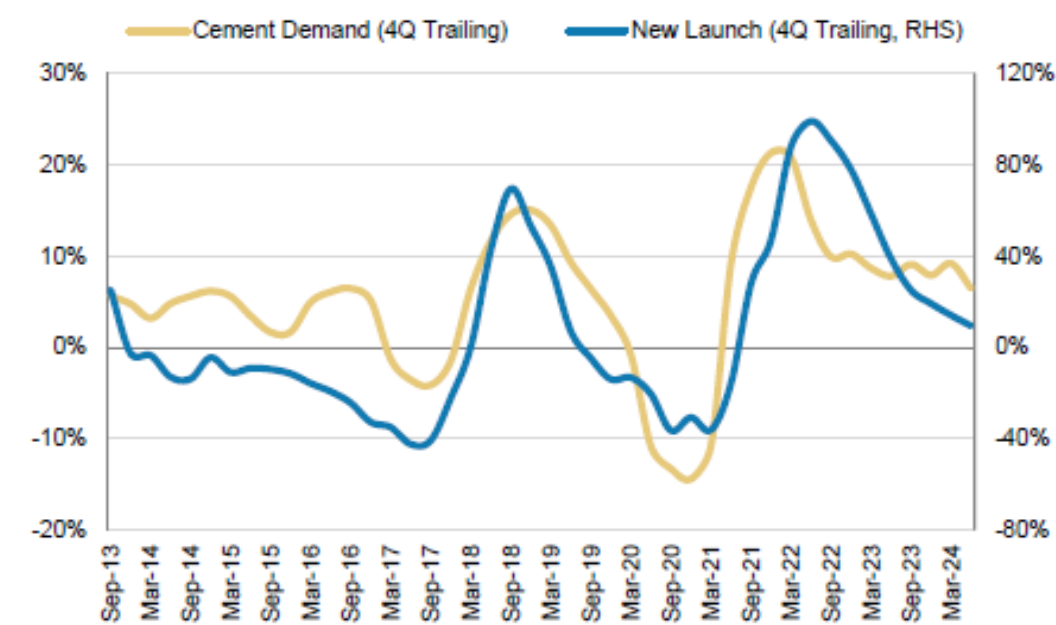
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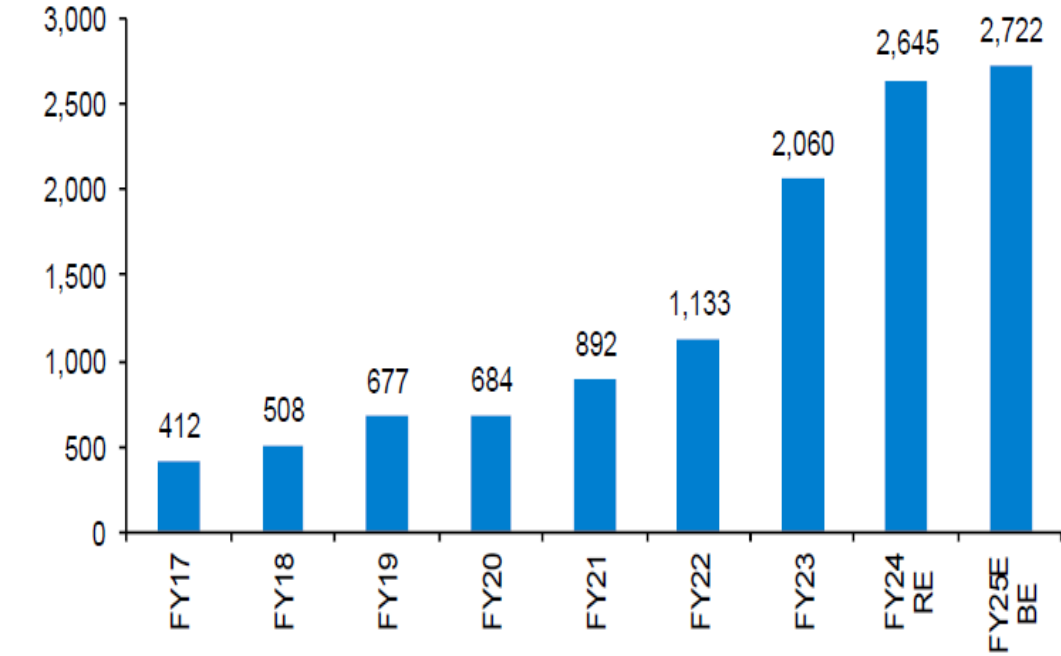


# Housing and infrastructure continue to support demand growth

## Urban housing highly correlated with cement demand

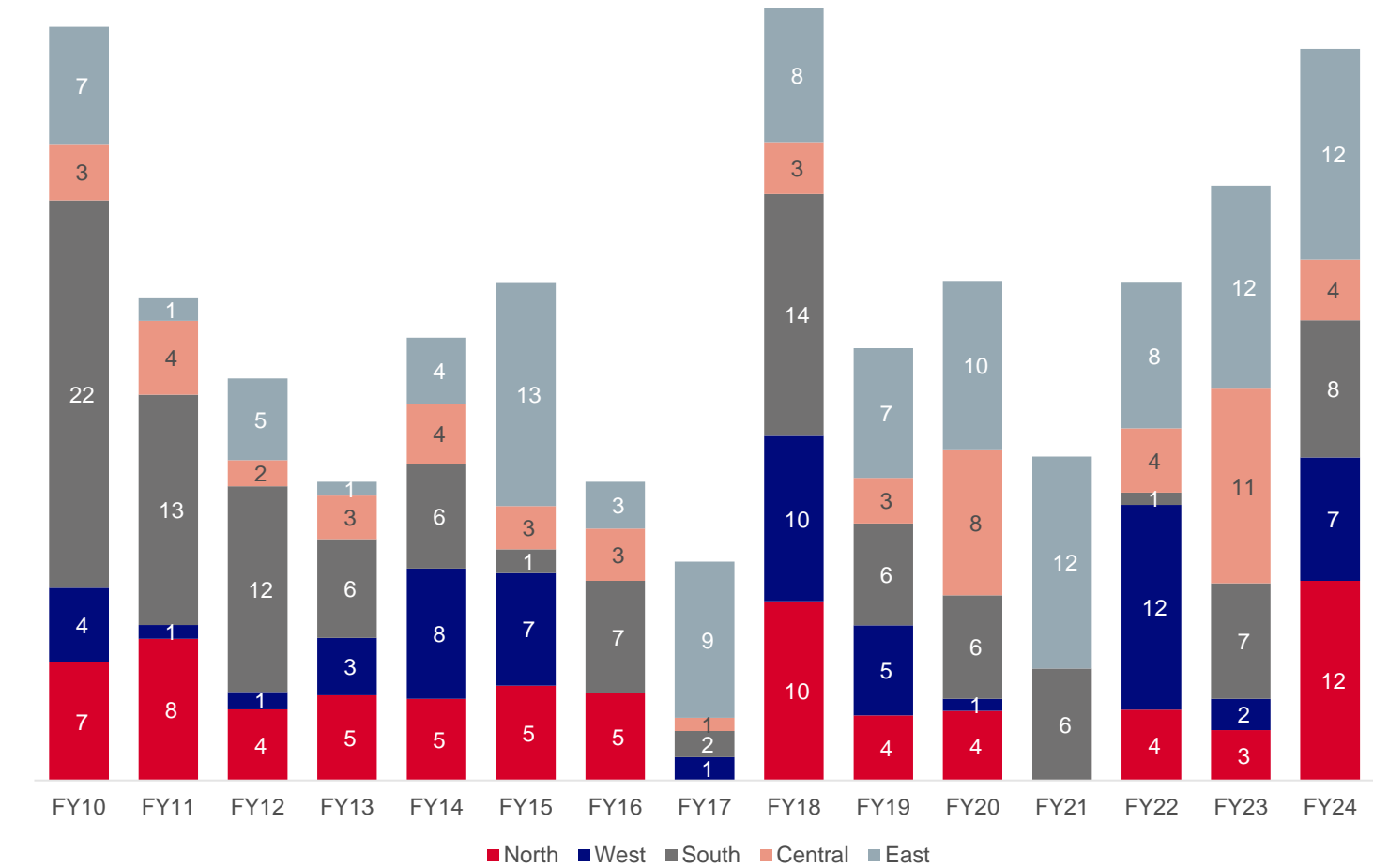


## Government spending on roads has been on an uptrend

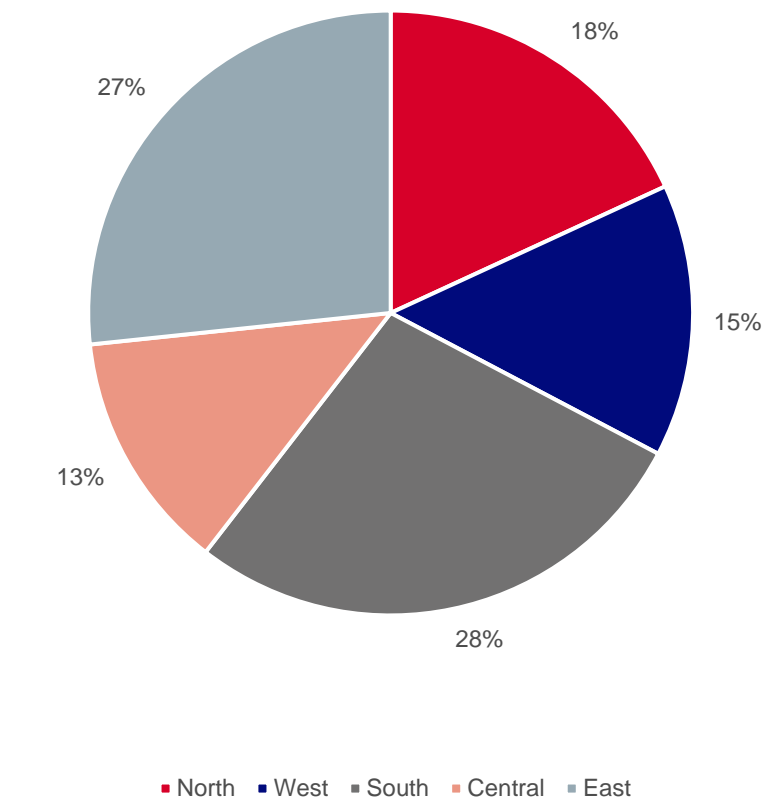


# However, supply additions have outpaced demand growth

Region-wise annual capacity additions (MTPA)

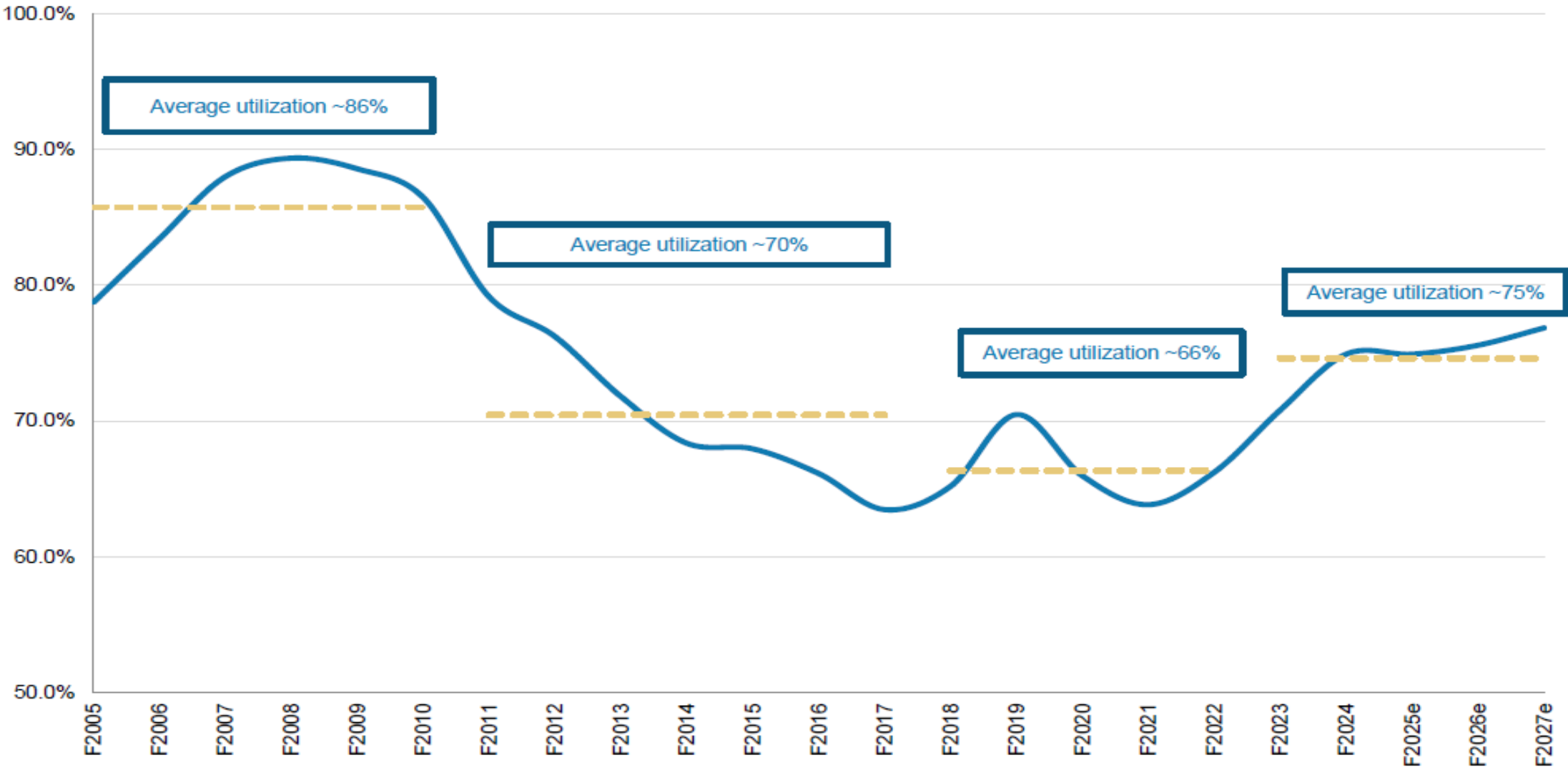


South has seen highest capacity addition



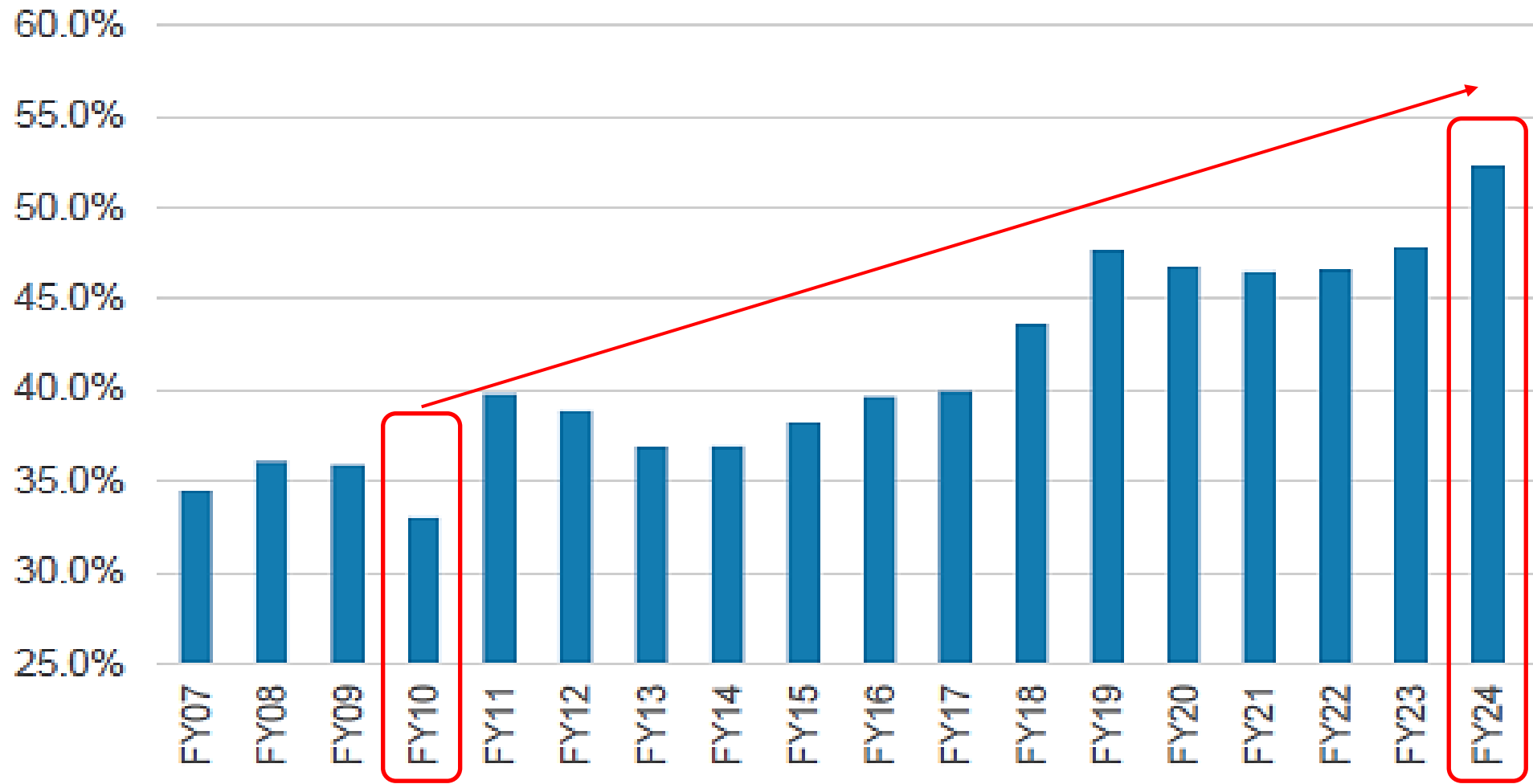
# Resulting in low capacity utilisations

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# Industry has seen consolidation – Top 5 players 50%+ of market share

Top 5 Players Capacity Market Share (%)



# Jio moment in cement industry post Adani's entry

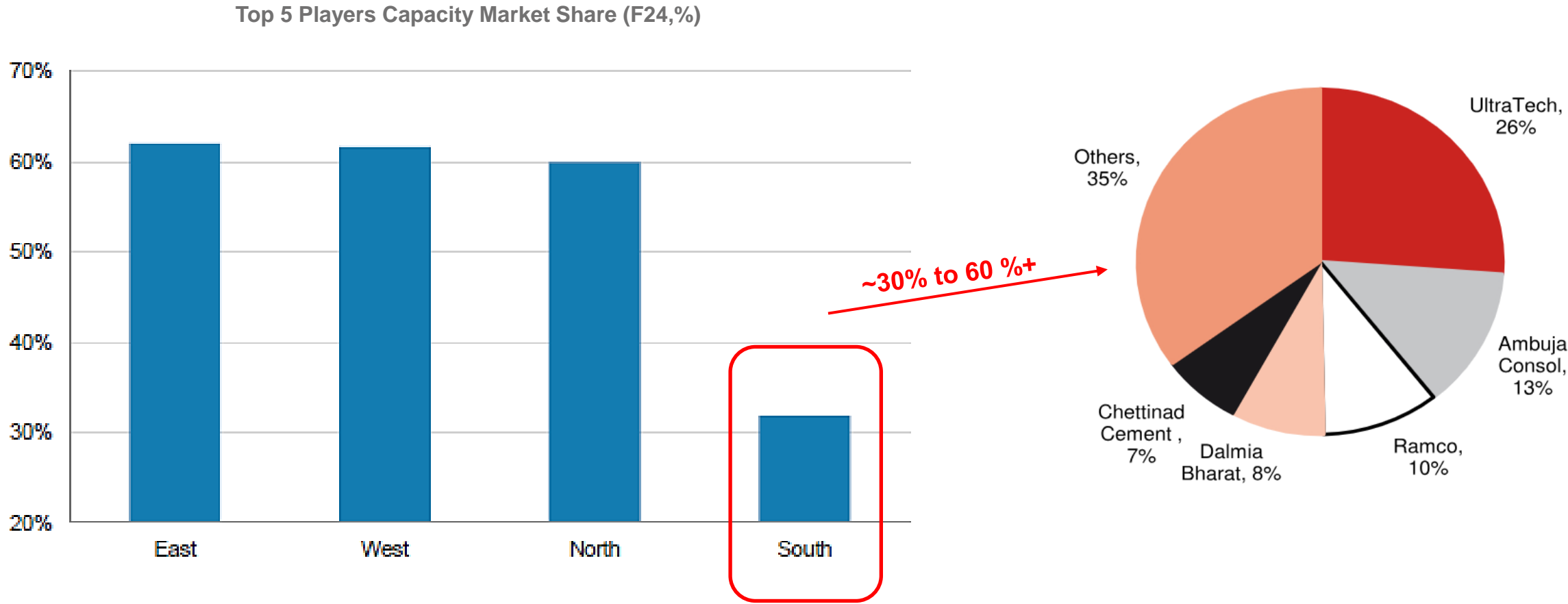


*Ultratech and Ambuja have led the acquisition spree with 73MTPA and 31MTPA grinding capacities acquired over the past decade, respectively*



# South had been the most fragmented market – that is changing now

A lot of recent deals have resulted in South based players being acquired – top players command 60%+ market share now





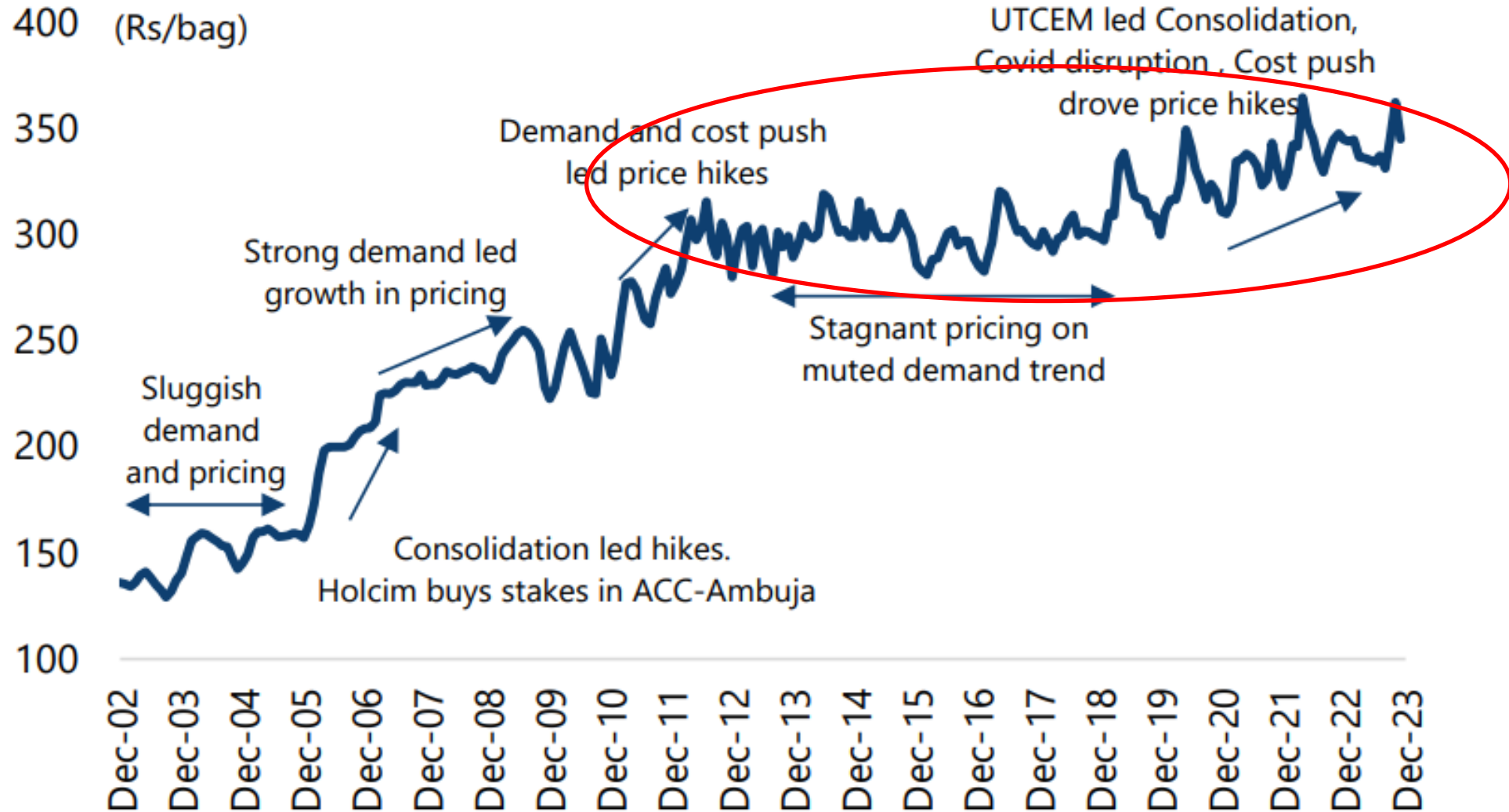
# Despite strong demand and industry consolidation, pricing power is weak

50kg bag – INR 240 in FY10 to INR 370 (up 50%; 3% CAGR)

Cup of tea – INR 5 in FY10 to INR 20 now (up 400%; 10% CAGR)

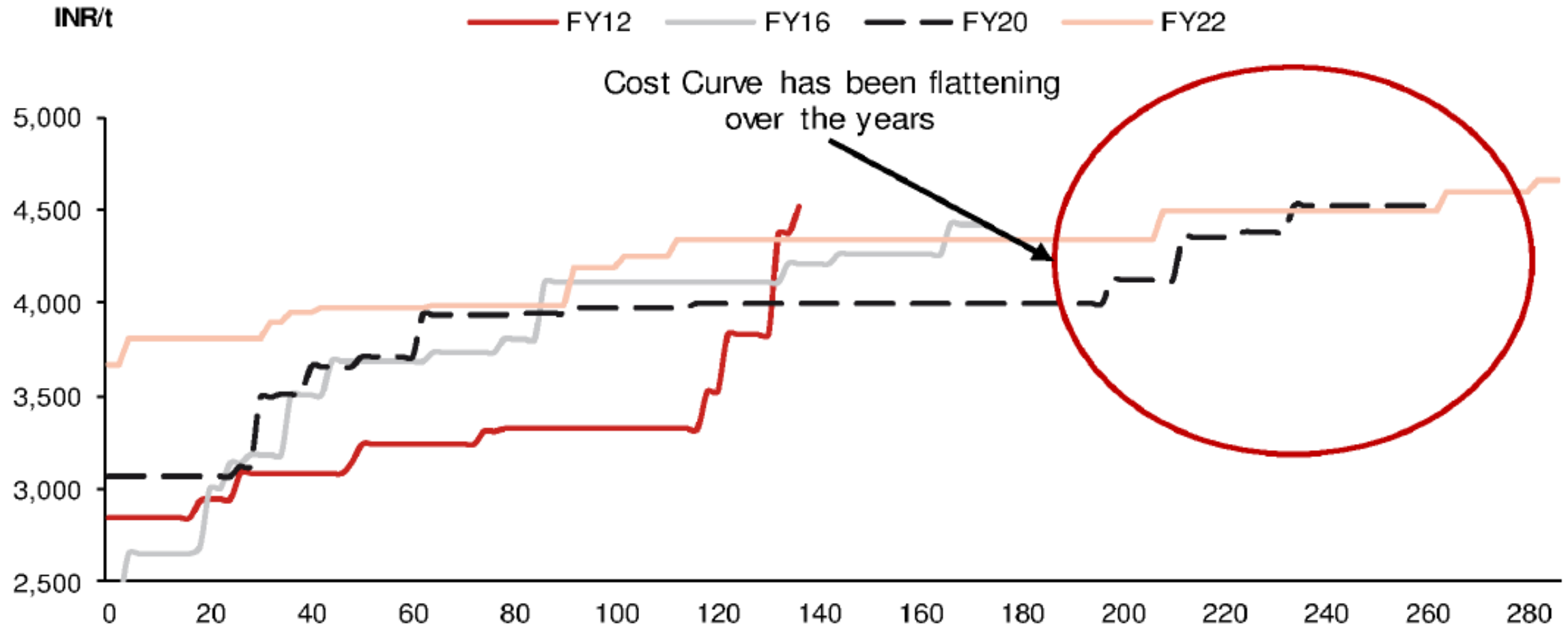


## Only 1% price CAGR in past decade



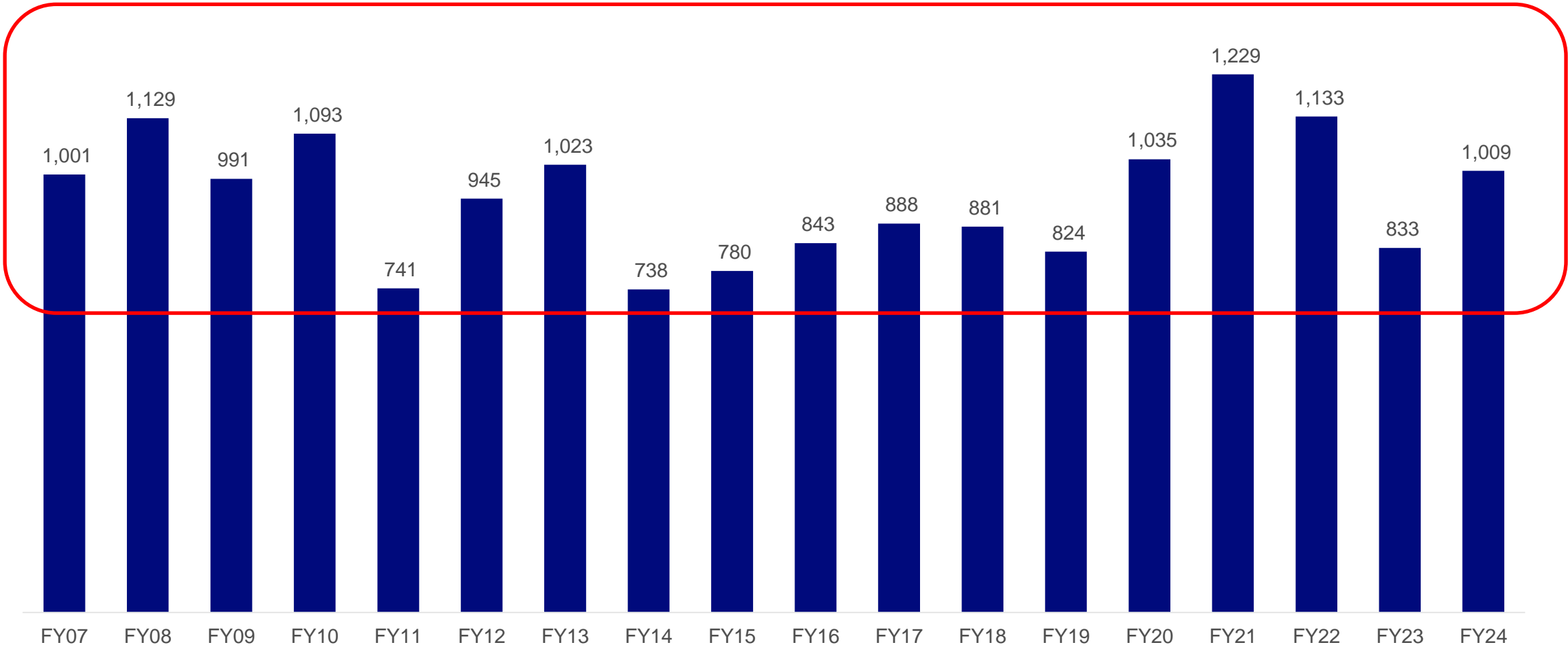
# Very little room for further improvement in costs

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# Hence EBITDA/ton for top players has remained in a range

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# Does capex make sense in cement now? FDs yielding better returns

*Industry EBITDA needs to move higher to >INR 1000 per ton to justify bare minimum ROCEs for incremental investments. This could only happen with pricing support.*

Example of profitability at current margins	
Capacity Cost/t (\$/t)	90
Capacity Cost/t (INR/t)	7,200
Capacity (MT)	1
Utilization (%)	80%
Volume (MT)	0.8
EBITDA/t (INR/t)	800
<b>EBITDA/t (INR/t) adj for Utilization</b>	<b>640</b>
Depreciation/t (INR/t)	440
EBIT/t (INR/t)	360
EBIT (1-t) (INR/t)	270
<b>ROCE (post-tax) (%)</b>	<b>3%</b>



# Profitability needs to double from current levels to justify investments



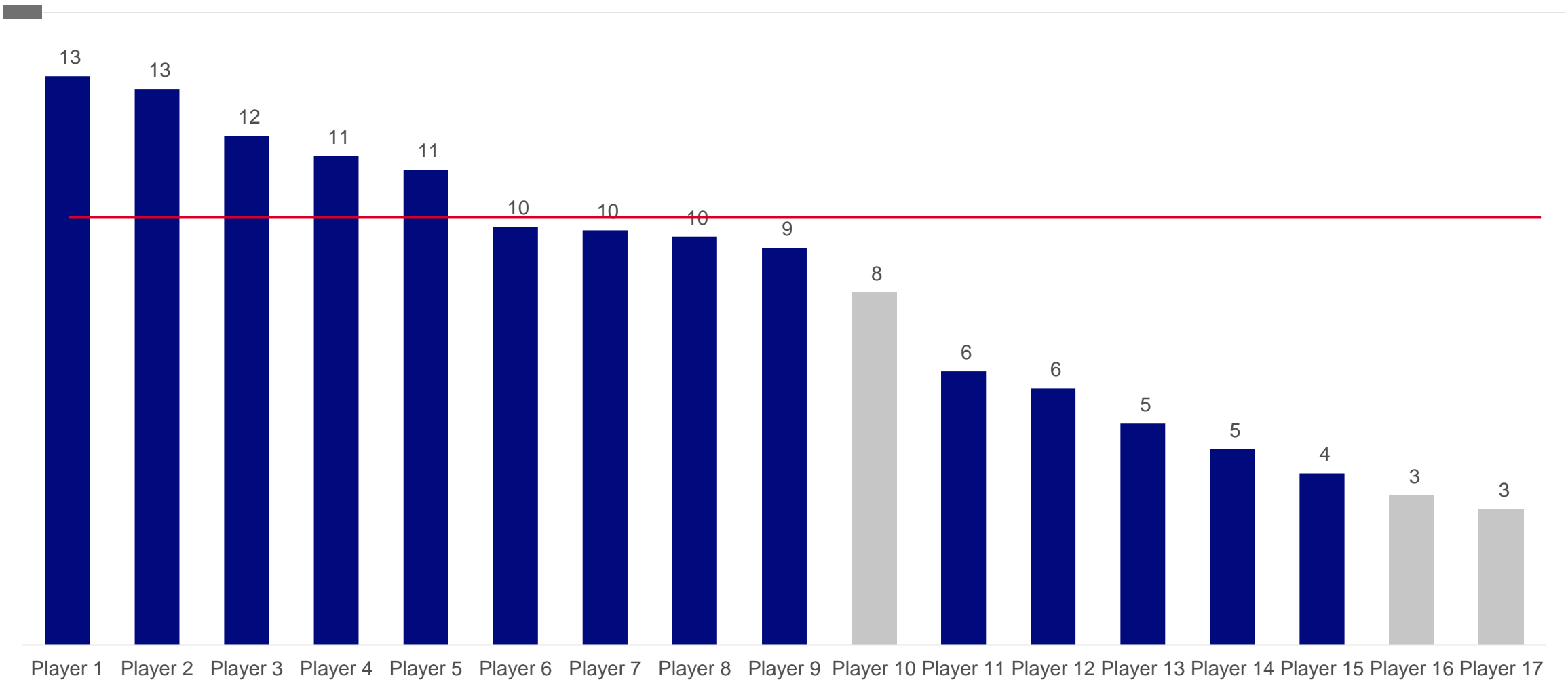
Players have engaged in market share game to increase capacities.  
Returns on those investments are questionable at current profit levels.

Required EBITDA/ton (INR)		Required ROE				
		11%	12%	13%	14%	15%
Capex/ton (INR)	6,500	1,157	1,188	1,218	1,249	1,280
	7,000	1,246	1,279	1,312	1,346	1,379
	7,500	1,335	1,370	1,406	1,442	1,477
	8,000	1,423	1,462	1,500	1,538	1,576
	8,500	1,512	1,553	1,593	1,634	1,674



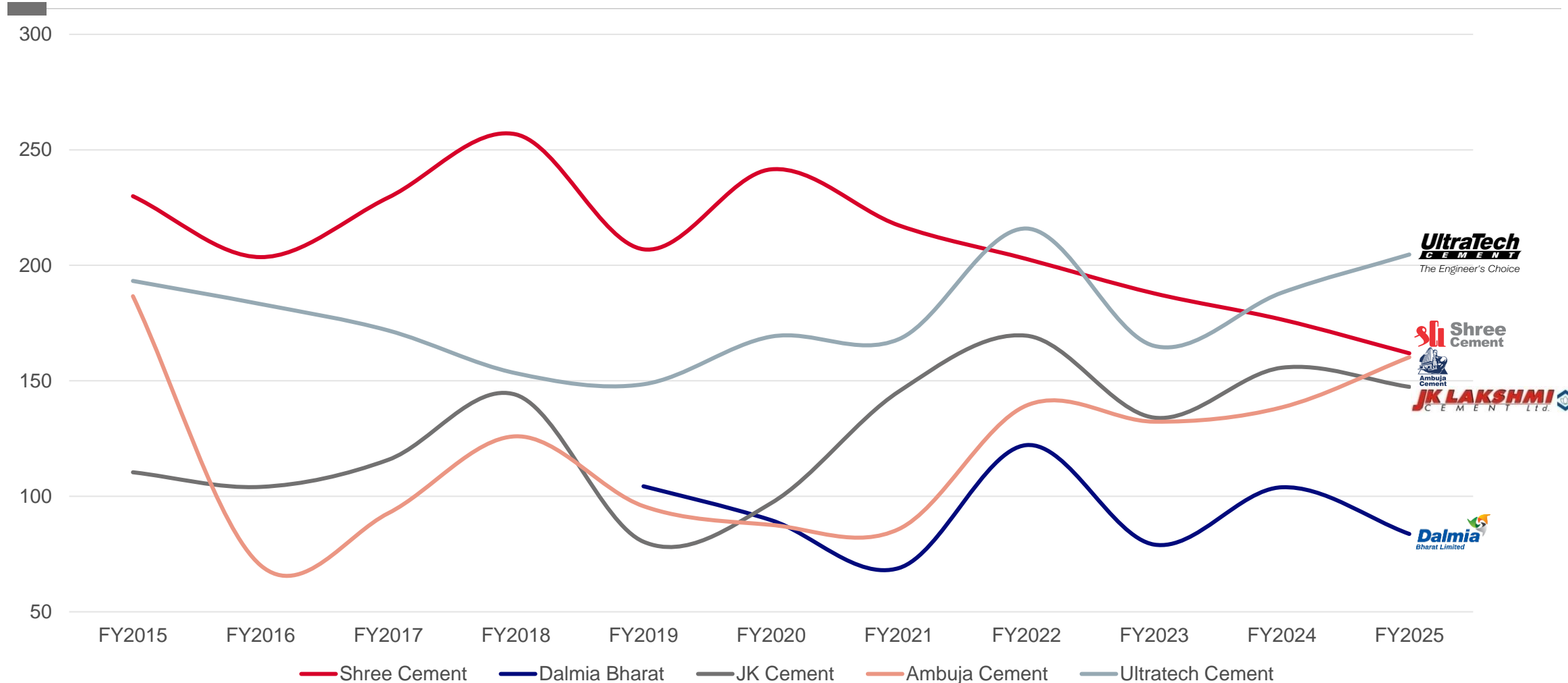
# Most players operate at sub-optimal ROCEs

Industry ROCE profile – highlighted companies have already been acquired by larger players



# Valuation of larger players has generally been above replacement cost

## Annual average EV/ton (USD) based on 1-year forward capacities



# At current margins, valuations imply 150Bn tons of sales

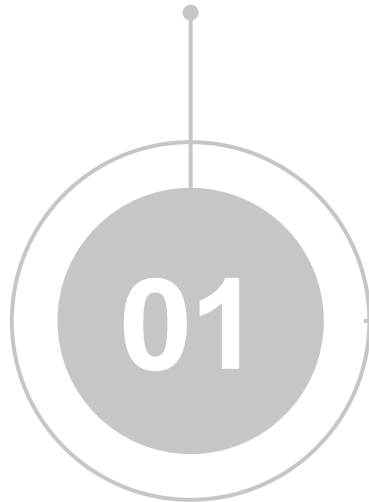


**The combined US\$100 bn market cap. of the listed cement companies (> US\$100 bn for the sector, including unlisted players) implies companies would have to sell (1) around 20 bn tons of cement on an undiscounted basis, (2) more than 150 bn tons of cement on a discounted basis in perpetuity.**

## Indian cement industry will need to sell 20 bn tons of cement on an undiscounted basis

Required volume of cement to be sold to justify the current market cap. Of listed cement companies	
Market cap. of cement industry (listed and unlisted, US\$ bn)	100
PAT/ton (US\$)	4.9
Required cumulative cement sales (undiscounted) (bn tons)	20
Cost of equity (%)	12
Required cumulative cement sales (discounted) (bn ton)	170
Required cumulative volumes (30 years growth with 50% value from terminal value)	43

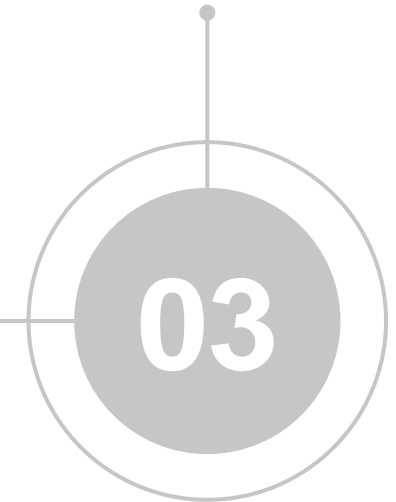
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(Yesterday and Today)



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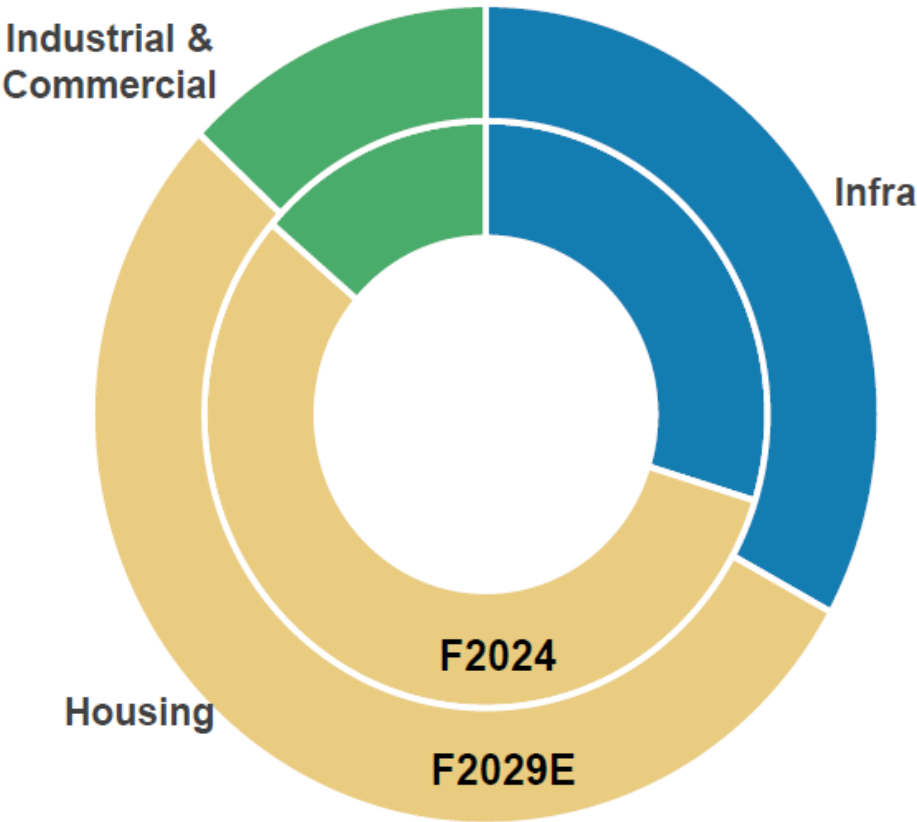
**KAL  
(Tomorrow)**

Our View on the  
Cement Sector

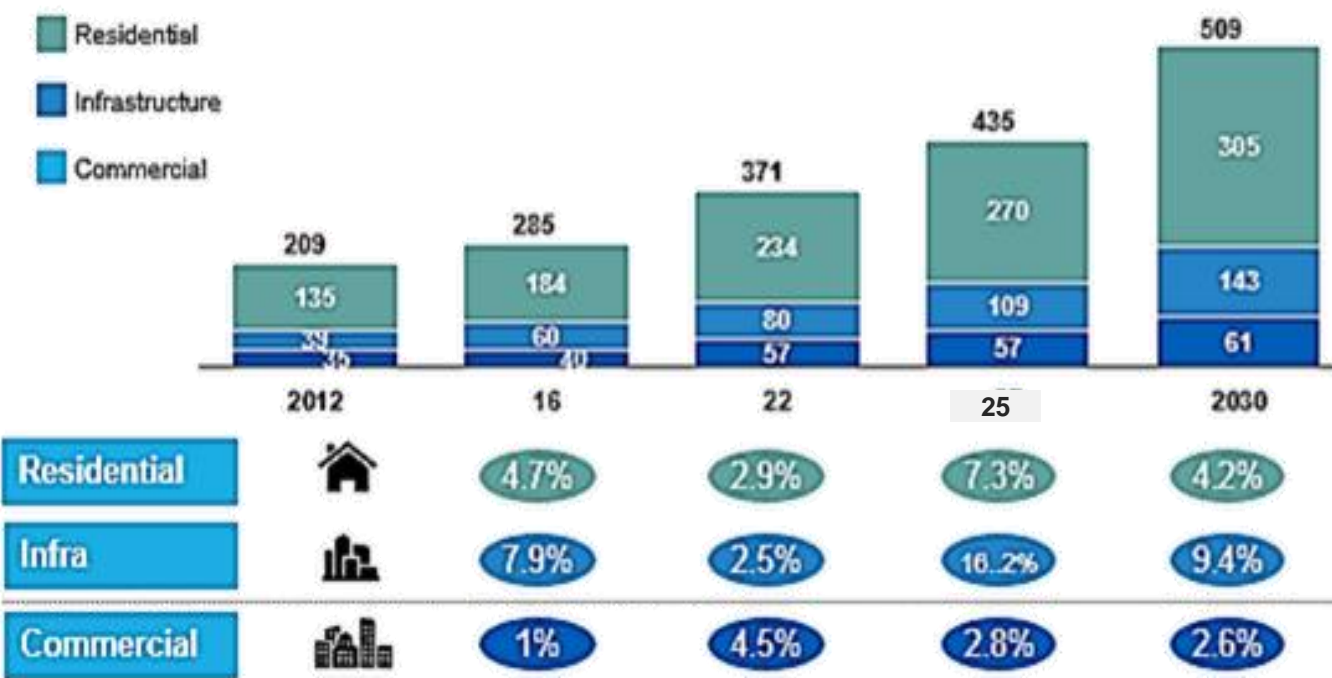


# Cement demand expected to track GDP growth in coming years

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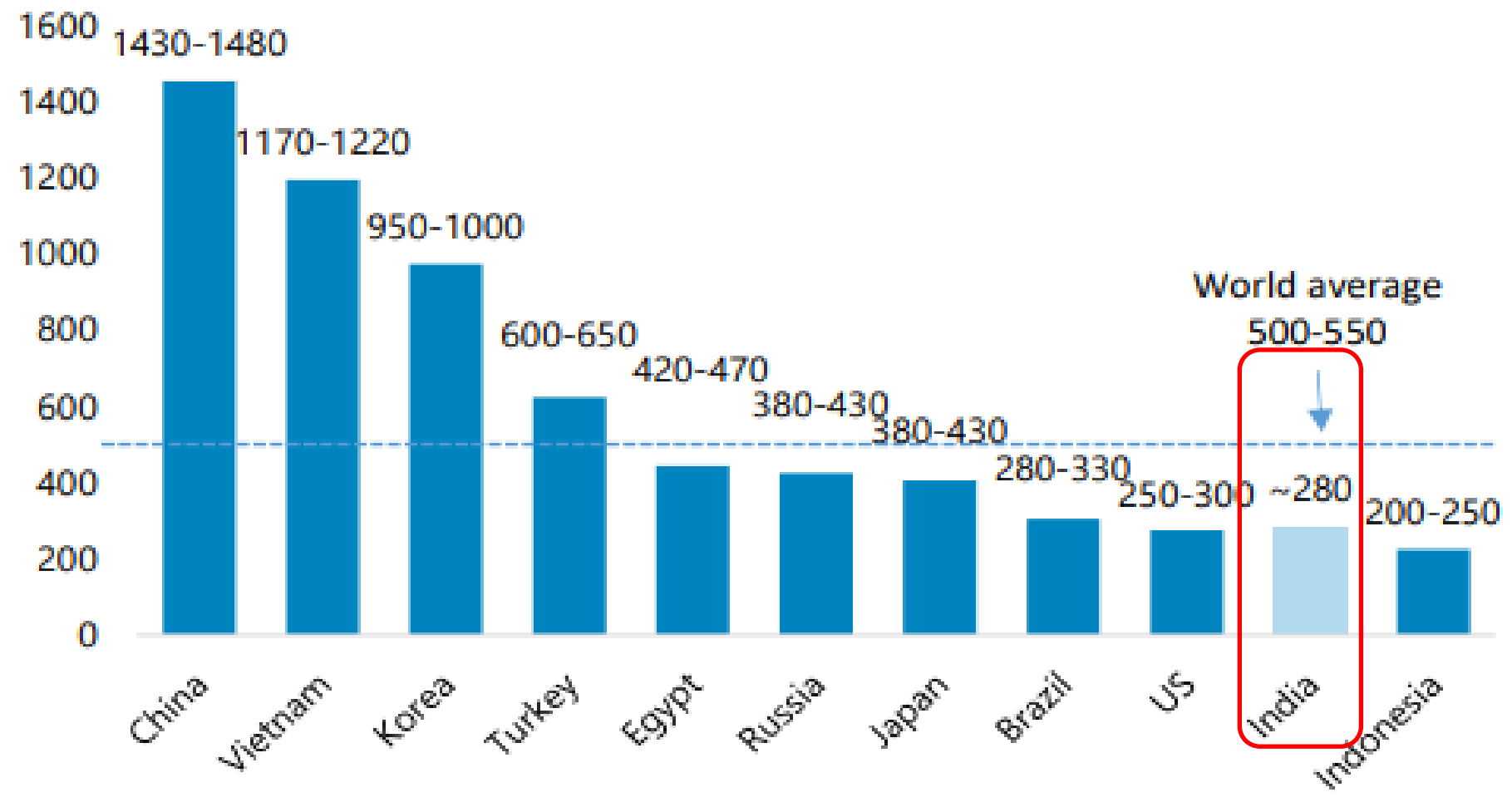


Cement demand growth forecast based on bottom up models (MTPA)



# Per-capita cement consumption has lot of room to grow

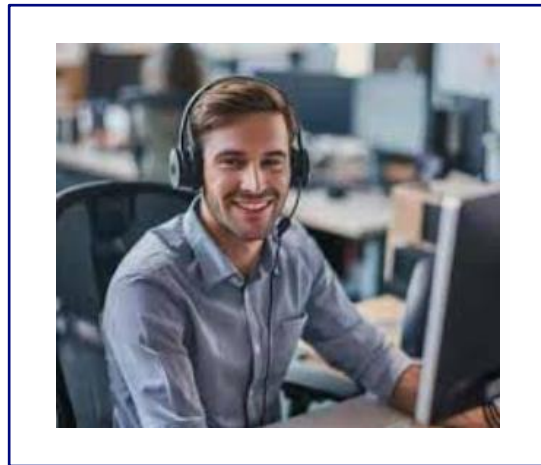
Country-wise per-capita cement consumption (kgs/year)





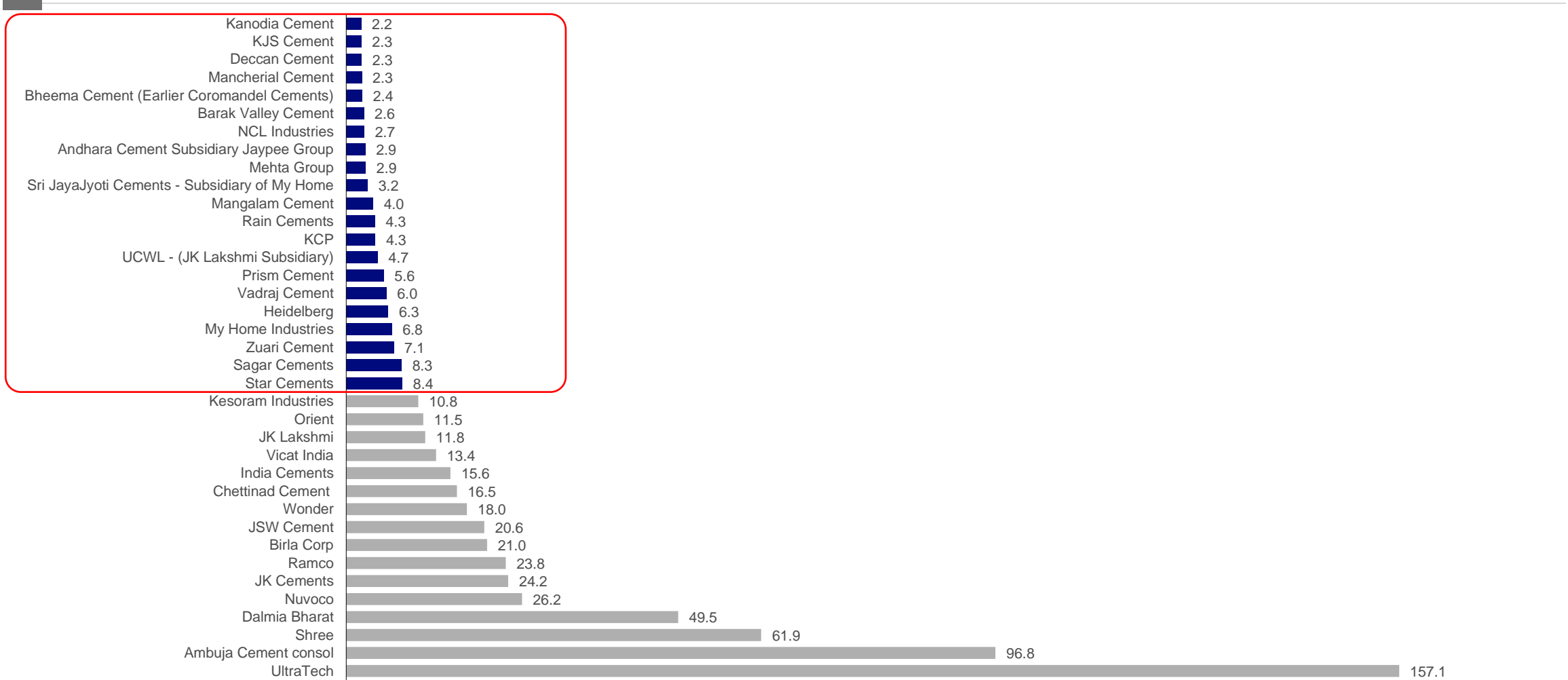
# *Cement one of few sectors where disruption risk is low*

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# More consolidation on cards?

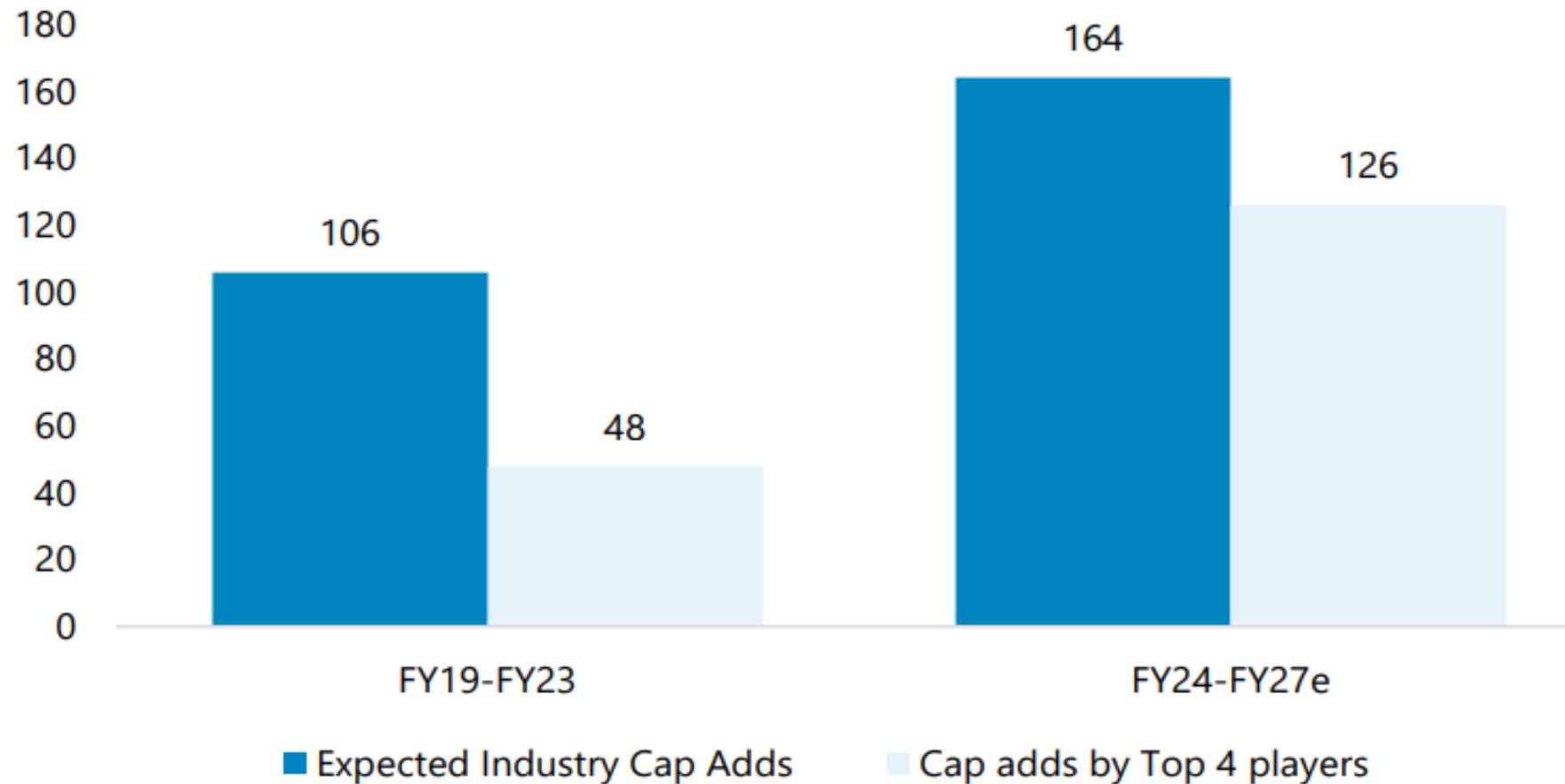
## Lot of capacities in sub-10MTPA bracket



## Over next 3 years, top 4 players to account for >75% of additions

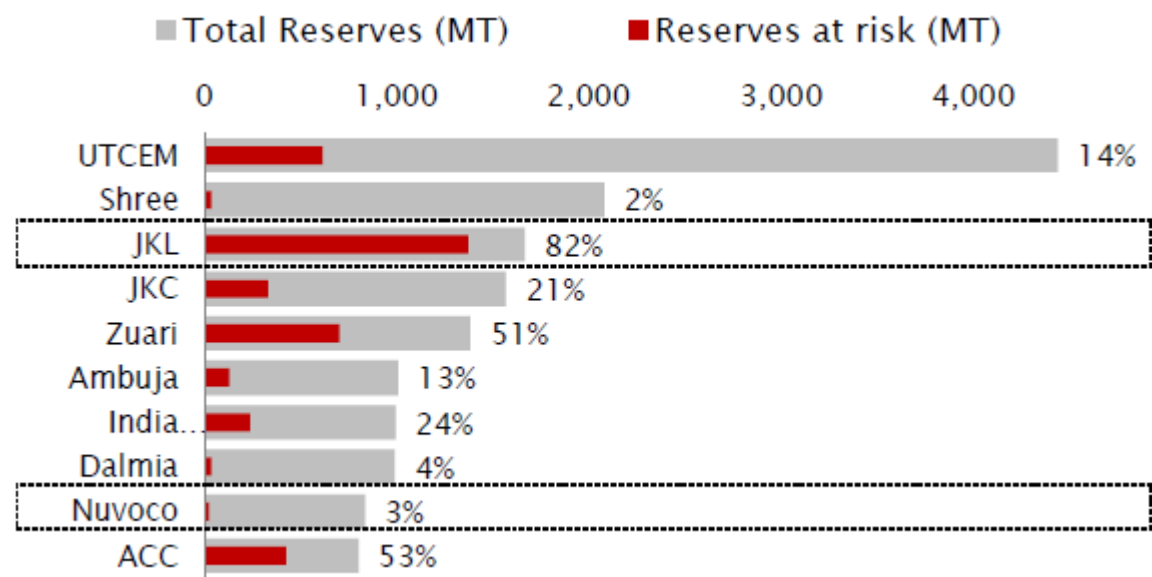
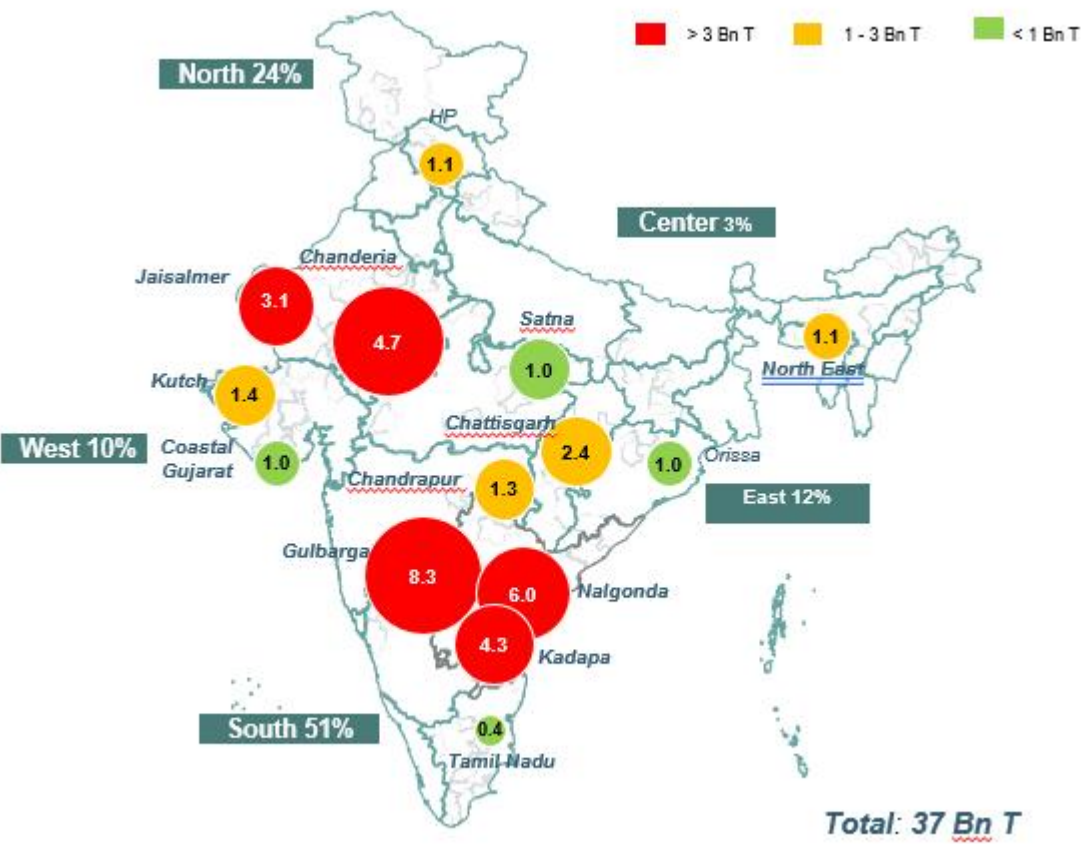


**Incremental capacity market share is >75% for top 4 players.  
This would translate in overall capacity share heading towards 65% by FY27.**



# Can limestone availability be an issue?

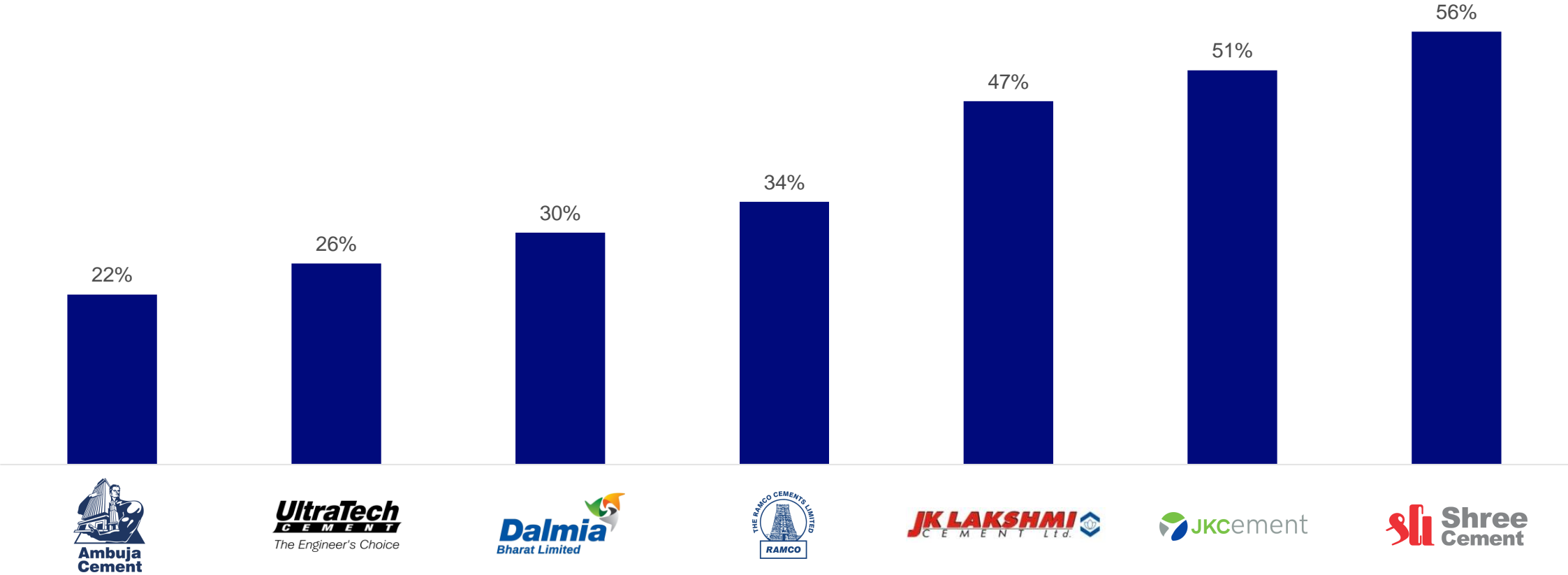
Industry will witness >25% of limestone mines expire by 2035. Some players would be affected more than others. Limestone availability is a priority for prospective acquisitions.



# Can costs be reduced further led by green power?



**Renewable energy costs are 40-50% cheaper than grid power, while waste heat recovery is 70-80% cheaper. Increasing share of green power in the energy mix would impact cost structures.**



# Commentary indicates prices have bottomed out in the near-term

Prices have been improving, whilst the average for the quarter will be a misrepresentation of things going forward. August to September also we saw improvement in prices and September to October also, the prices have been steady.

We are already seeing **positive traction from rural markets.**



**ATUL DAGA**  
CFO of UltraTech Cement



Going forward, **we are very confident that government led infrastructure projects** will continue to play a key role in demand growth. We believe there is every reason for demand to be better in the next 6 months versus the last 6 months. Industry demand growth has a close linkage with prices.

We were very clear that we should try to retain and give more **importance to price over volumes**



**NEERAJ AKHOURY**  
MD & CEO of Shree Cement





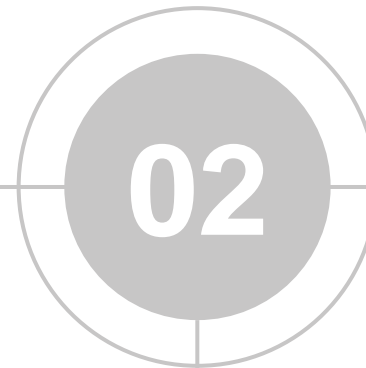
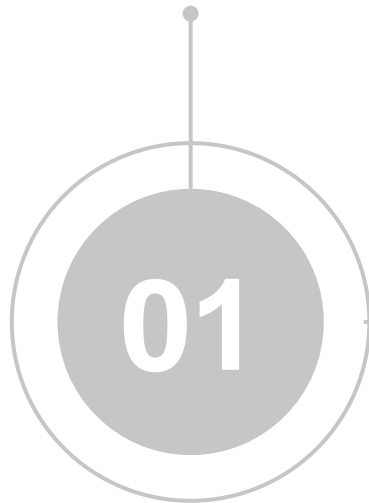
*Every rupee counts....*



**Top 10 players had volumes  
of 330MT in FY24.**

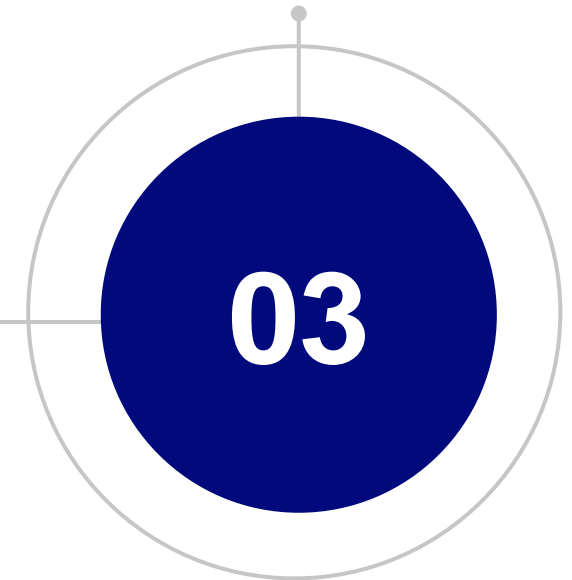
**Each Re. 1 increase in price  
per bag, adds INR 67Bn to  
their EBITDA, translating to  
**2% of EBITDA  
or 3% of PAT.****

KAL AUR AAJ  
(Yesterday and Today)



KAL  
(Tomorrow)

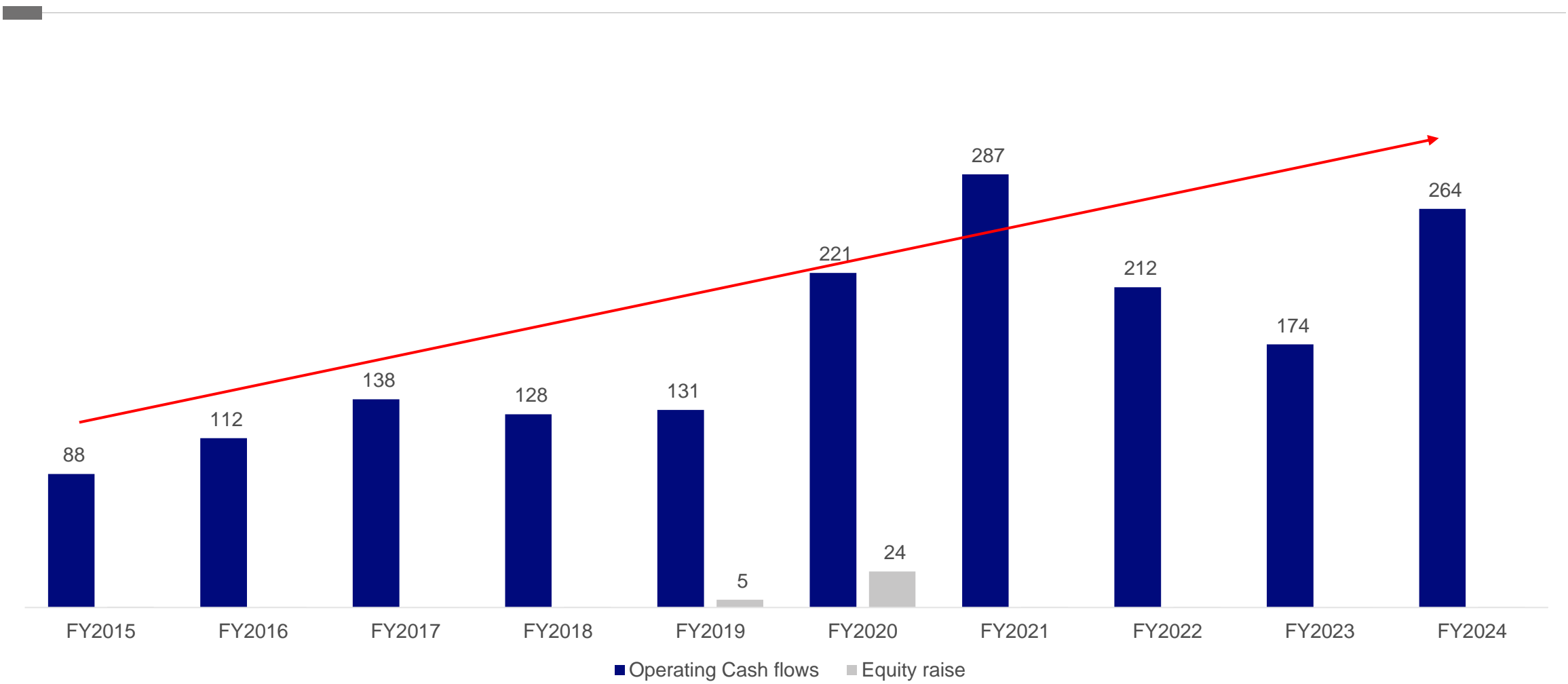
**Our View on the  
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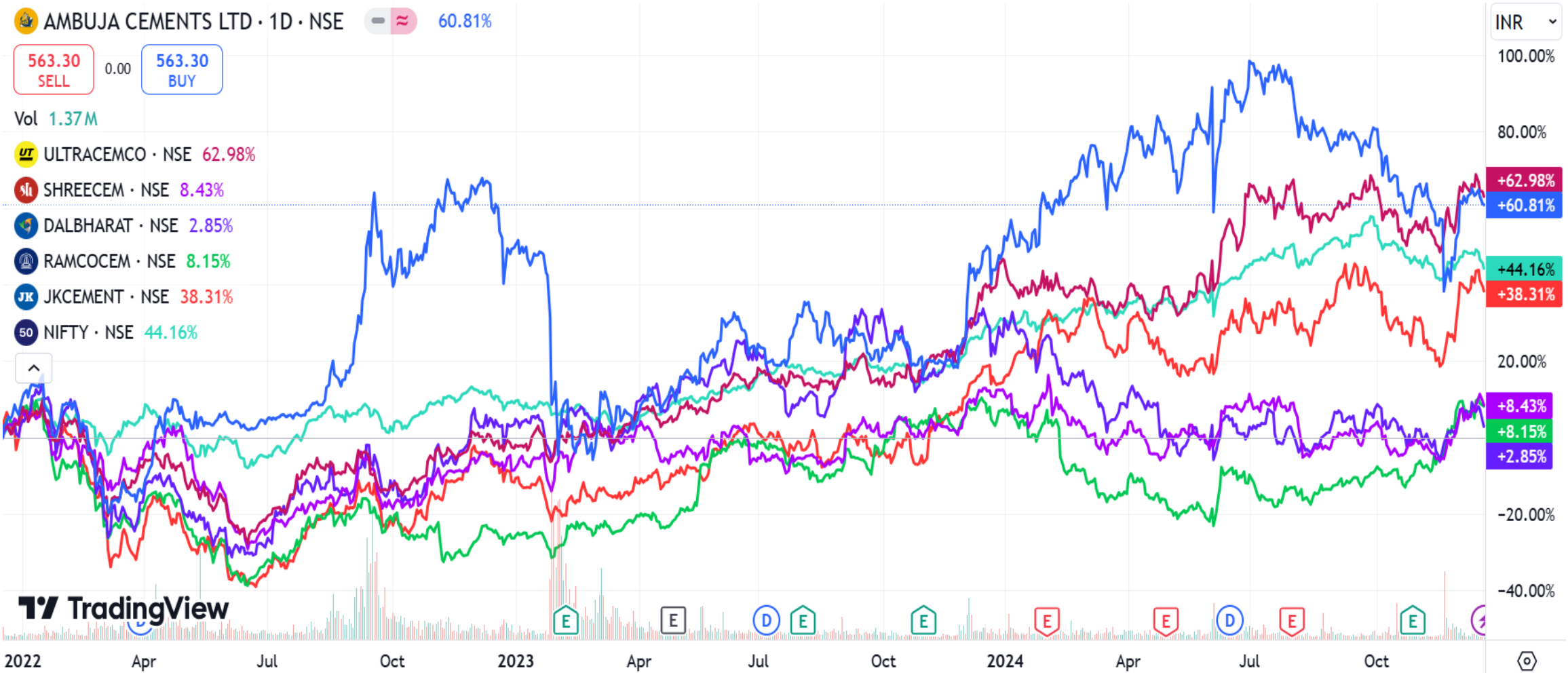


# Despite low margins, equity raise limited due to strong cash flows

Annual operating cash flows and equity raise for top 6 players

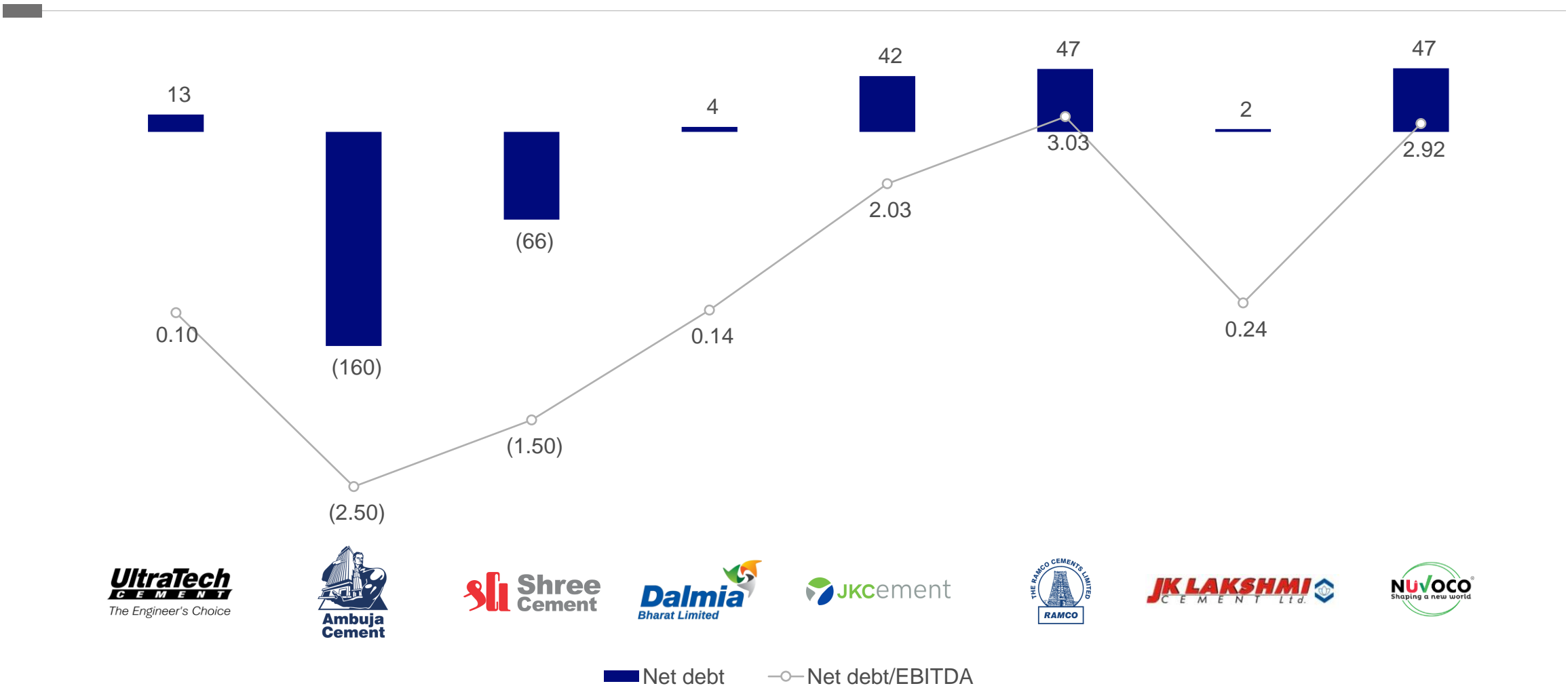


# However past 3 years has seen underperformance vs Nifty



# Industry balance sheet remains strong

Net debt position of top players as of March'24 (INR Bn)



*If EBITDA/t improves, earnings CAGR can be much higher than index*



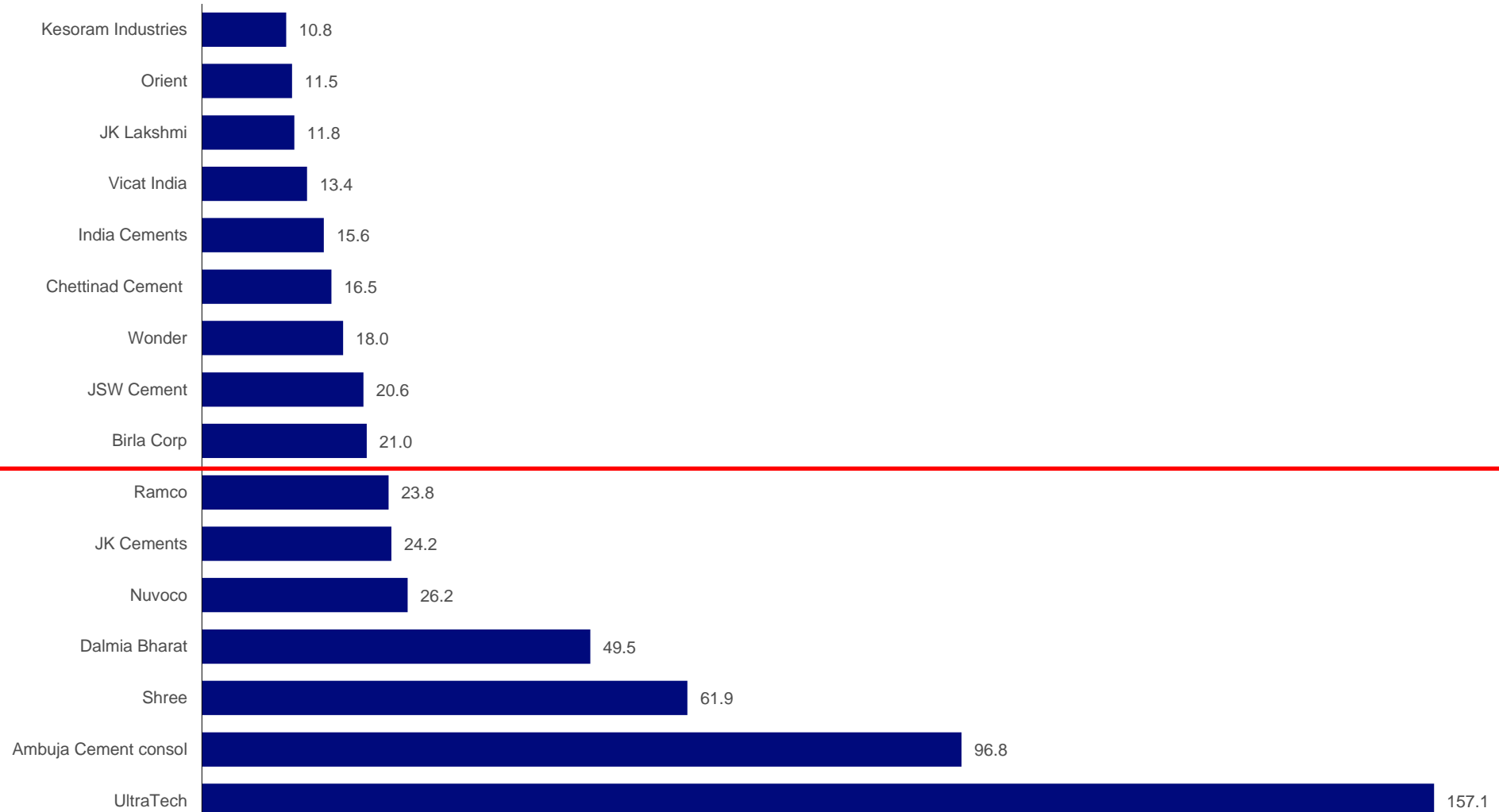
# Can profitability mean revert?

## Cement Profit Pool Share





*We expect larger players should do better than smaller ones*



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