

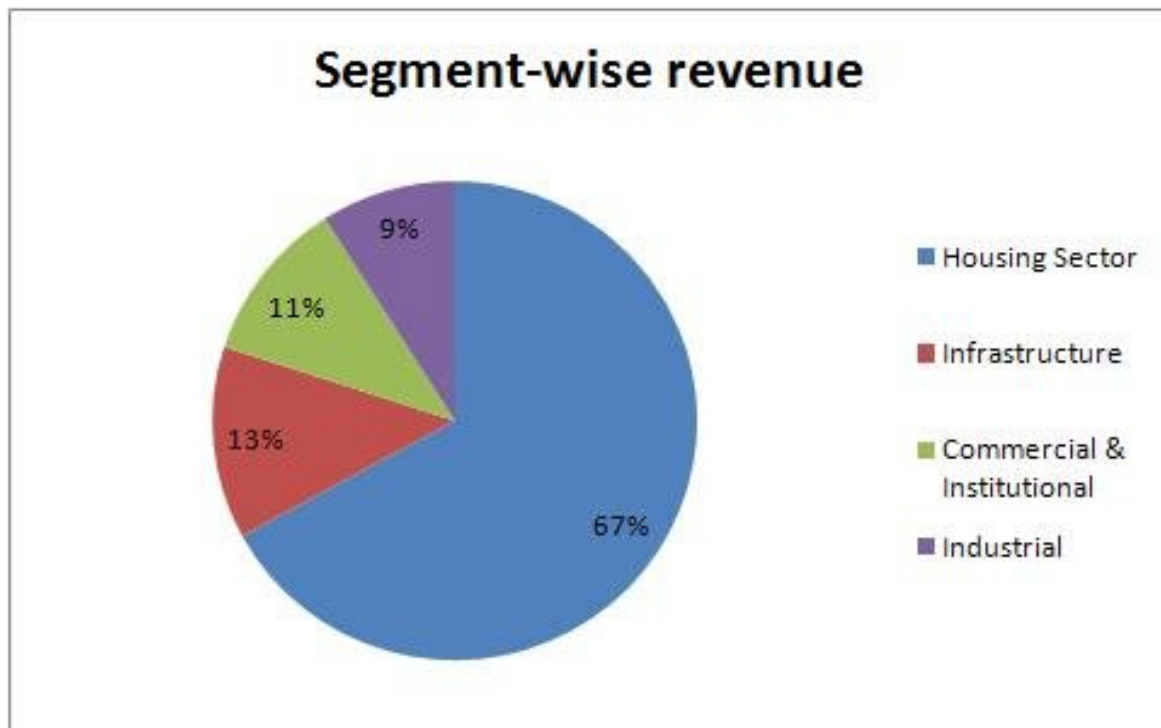
Govt spending on infra, hike in cement prices likely to augur well for cement sector

JAN 30, 2015

Indian cement industry is directly related to the country's infrastructure sector and thus its growth is paramount in determining the development of the country. With a current production capacity of around 366 million tonnes (MT), India is the second largest producer of cement in the world and fueled by growth in the infrastructure sector, the capacity is expected to increase to around 550 MT by FY20.

India has a lot of potential for development in the infrastructure and construction sector and the cement sector is expected to largely benefit from it. Some of the recent major government initiatives such as development of 100 smart cities are expected to provide a major boost to the sector. Expecting such developments in the country and aided by suitable government foreign policies, several foreign players such as the likes of Lafarge, Holcim and Vicat have invested in the country in the recent past. Another factor which aids the growth of this sector is the ready availability of the raw materials for making cement, such as limestone and coal.

In India, the housing sector is the biggest demand driver of cement, accounting for about 67 per cent of the total consumption. The other major consumers of cement include infrastructure at 13 per cent, commercial construction at 11 per cent and industrial construction at 9 per cent.



Current scenario

The Indian cement industry is the second largest market after China and had a total capacity of over 360 million tonnes (MT) as of financial year ended 2013-14. Cement is a cyclical commodity with a high correlation with GDP. The Indian cement industry grew at a commendable rate in the previous decade, registering a compounded growth of about 8%.

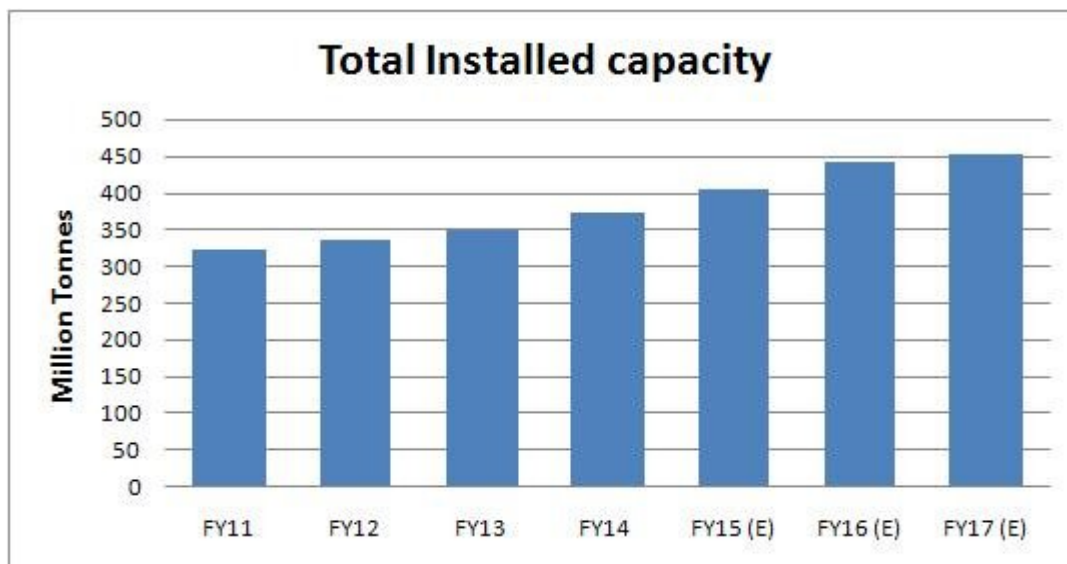
However, the growth slowed down in the period 2011 to 2013 when cement consumption grew at an average rate of 4%. Moreover, the per capita consumption of cement in India still remains substantially low at about 192 kg when compared with the world average which stands at about 365 kg (excluding China). This underlines the tremendous scope for growth in the Indian cement industry in the long term.

Cement, being a bulk commodity, is a freight intensive industry and transporting it over long distances can prove to be uneconomical. This has resulted in cement being largely a regional play with the industry divided into five main regions viz. north, south, west, east and the central region. The Southern region of India has the highest installed capacity, accounting for about one-third of the country's total installed cement capacity.

Cement Production Capacity

The cement industry is bullish on the long term prospects of the infrastructure and housing construction sector. The industry is set to add 39.1 million tonnes per annum (mtpa) to capacity in 2014-15. Another 28.6 mtpa of production capacity is expected to come up in 2015-16. In all, the industry is expected to add around 68 mtpa in the two years ending March 2016, scaling up the total installed capacity to 453.4 mtpa. The industry had already added 5.7 mtpa of capacity during April-June 2014. These include Shree Cement's 2 mtpa cement plant at Aurangabad (Bihar), Mangalam Cement's 1.3 mtpa plant at Kota (Rajasthan) and Wonder Cement's 0.8 mtpa plant at Nimbahera (Rajasthan).

Nearly 32 per cent of the incremental capacity i.e 21.5 mtpa is expected to come up in the west zone during 2014-16. The largest project expected to get commissioned in the region is Reliance Cement's 4.8 mtpa cement plant at Yavatmal, Maharashtra. ACC is expected to complete its four mtpa production unit at Jamul (Chhattisgarh). Sanghi Infrastructure, Century Textiles & Inds., Jaiprakash Power Ventures and Kesoram Industries are also expected to add fresh production capacities during 2014-16.

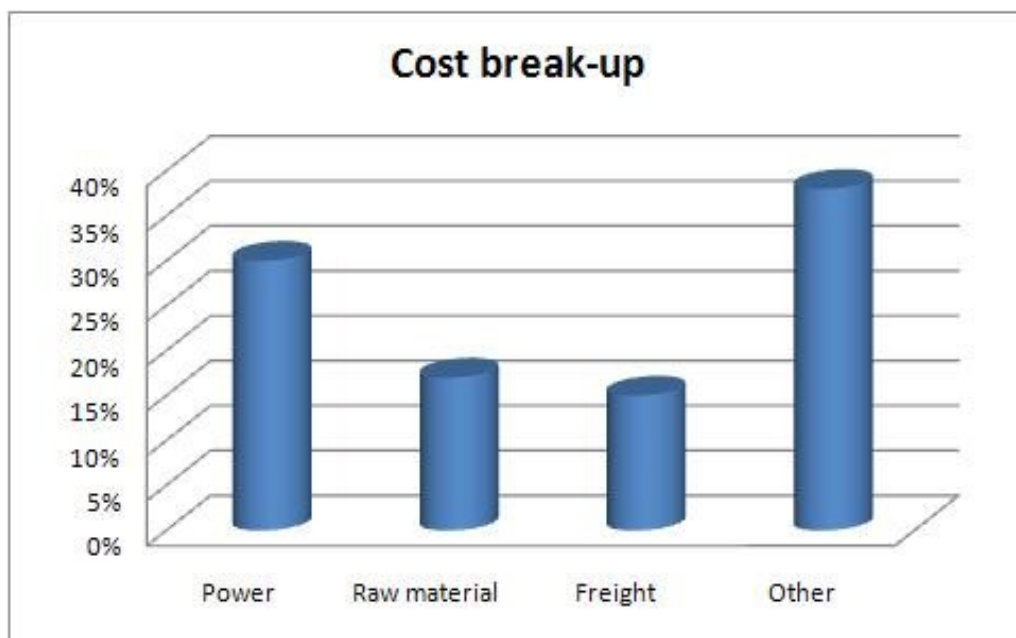


The east zone is expected to add a capacity of 17.3 mtpa by March 2016. ACC and Ultratech Cement - the market leaders, are expected to complete two cement projects in the region with a combined production capacity of 3.1 mtpa and 4 mtpa, respectively. Another major project in the region will be Reliance Cement's 3 mtpa plant at Raghunathpur (West Bengal). Other companies that will be adding capacities are Burnpur Cement, Shiva Cement and Shree Balajee Cement.

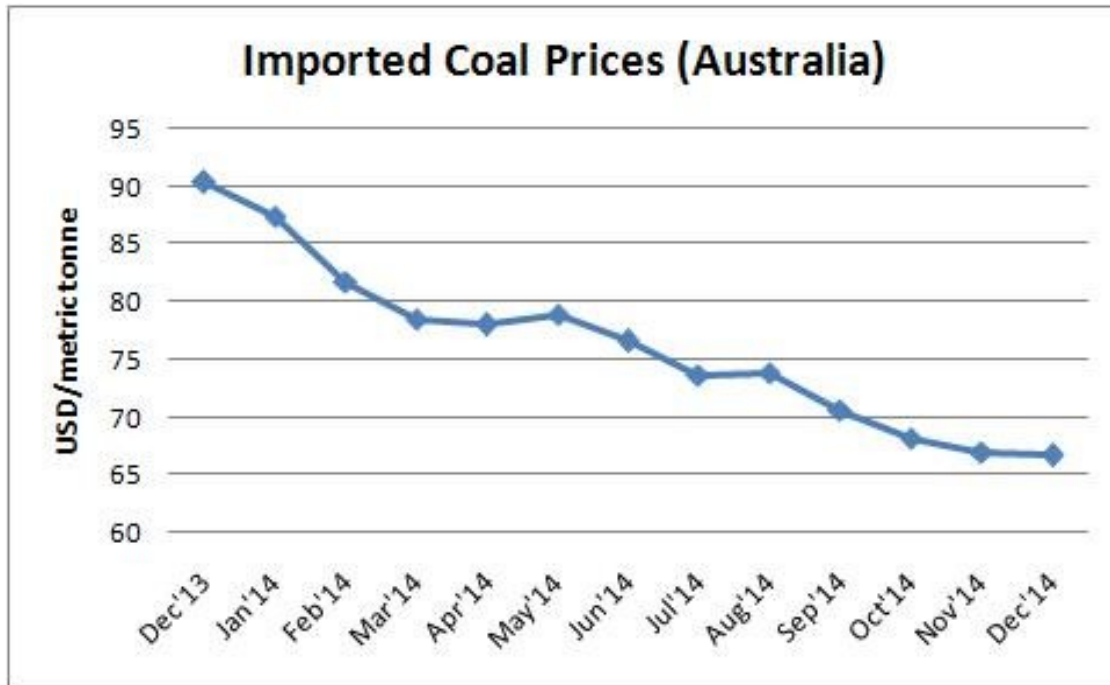
A total of 15 mtpa of capacity is scheduled to be commissioned in the south zone. Major projects expected to be completed in this region are Ultratech Cement's three mtpa plant at Malkhed (Karnataka), Jaypee Cement's three mtpa plant at Bankur (Karnataka) and India Cement's 2.6 mtpa plant at Ariyalur (Tamil Nadu). Orient Cement and Dalmia Cement are also expected to commission their manufacturing units during 2014-16. The north zone would lag behind in capacity additions. It is expected to add 13.9 mtpa of cement production capacity by March 2016. Wonder Cement will be adding 4.8 mtpa of production capacity in the region. With completion of two projects, JK Cement will be adding a combined capacity of three mtpa. Ultratech Cement will be expanding its production capacity by 2.9 mtpa at Adityapuram (Rajasthan).

Cost break-up

Indian cement industry is energy intensive in nature, as power is an important cost factor, about 30 per cent of total expenses are being spent on power and energy needs of the plant. Thus, many large companies resort to captive power plants in order to reduce the power costs, as this source is economical and results in continual supply of power. Therefore, higher the captive power consumption of the company, the better it is for the company. Access and proximity to raw materials (limestone and coal) and consuming markets are very important as it is extremely bulky commodity.



However, coal prices witnessed significant decline in past few months. Imported coal prices started moving south-wards and have reached \$66.68 per metric tonne at the end of December 2014, down by 26.21 per cent as compared to \$90.36 per metric tonne in December 2013. The downward movement in coal prices is likely to have a positive impact on the margins of the cement companies, particularly those which depend more on imported coal.



Investment in the sector

- JSW is planning to expand its cement production capacity to 30Mt/yr from 5Mt/yr by setting up grinding units closer to its steel plants. As part of its diversification, it is also considering the production of aluminium, if the government allocates bauxite mines to it.
- UltraTech Cement has revealed plans for its next phase of greenfield expansion. Following the acquisition of two Jaypee Group plants, the company is planning to establish two greenfield grinding units in Bihar and West Bengal.
- Zuari Cement through its subsidiary Gulbarga Cement (GCL) plans to set up a 3.23 MT cement plant in Gulbarga, Karnataka. The company along with the cement plant is setting up a 50 MW captive power plant in the region.
- Reliance Cement Company (RCC), a subsidiary of Reliance Infrastructure, has entered into the cement market of Bihar where the demand for the building material is on the rise due to a realty boom. RCC presently has plants with total installed capacity of 5.8 MTPA.
- Lafarge and Holcim are planning to request for the European Commission's approval for their possible merger. The two companies had earlier unveiled plans in April 2014 to create the world's biggest cement group with \$44 billion in yearly sales.

Positives for the sector

Steep hike in cement prices

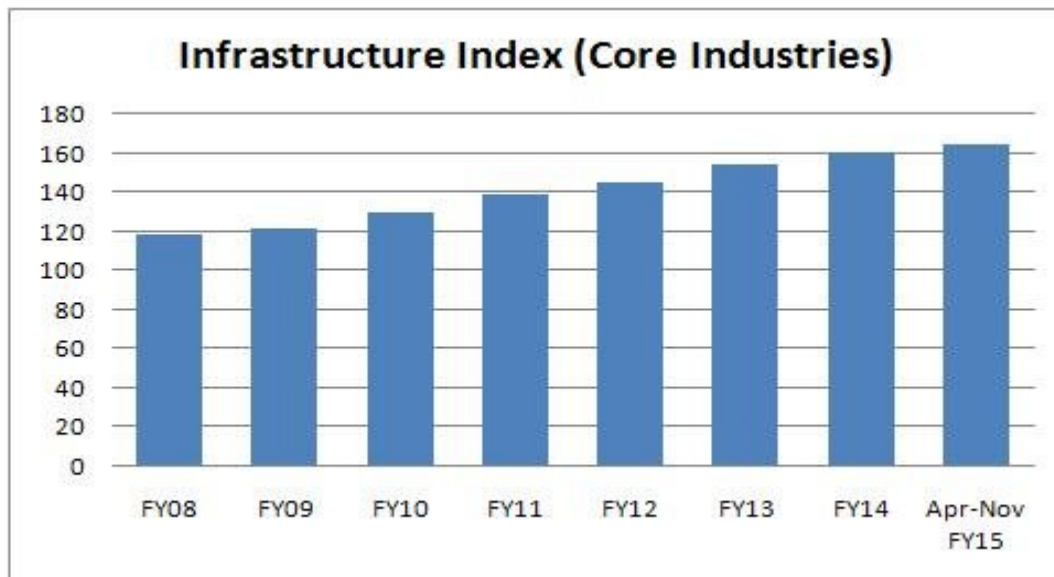
Cement manufacturers have rolled out a price hike in the range of Rs 50-80 compared with prices prevailing December 2014. Consequently, the price of cement per bag of 50 kg is now in the range of Rs 330 to Rs 340 in Hyderabad, while in Telangana and Andhra Pradesh it is slightly lower at Rs 310- Rs 340.

Earlier, the price in Hyderabad was Rs 30-40 lower than the other places in Telangana and Andhra Pradesh, but now it is almost the same. This was the steepest hike after October 2014. The average prices went up by Rs 20 a bag and stood at Rs 320 against Rs 300 a bag in the year-ago period. Later, it fell and shot up again now.

The price of the commodity in Tamil Nadu is in the range of Rs 355-390 per bag, while in Kerala it is between Rs 370 and Rs 400 per bag. The price hike, however, is not supported by any increase in demand.

Infra push by Government

Development of the infrastructure sector is crucial to the growth of Indian economy. In spite of steady performance of core industries (infrastructure index) over the past few years, India's infrastructure facilities, including transport, sanitation and electricity, are still estimated to be inadequate for its population, thereby presenting a challenge for sustainable economic growth. Though, the government of India is taking various measures to develop the country's infrastructure. In this regard, the Government has set a massive target for doubling investment in infrastructure to \$1 trillion (Rs 40.9 trillion) during the 12th Plan period (2012-2017) from Rs 20.5 trillion in 11th five year plan.



The Narendra Modi Government's push for infrastructure development would firm up cement demand in the coming months. Cement makers are hoping that the ensuing Union Budget gives a special thrust on low-cost housing, which again could push up demand. Moreover, plans to lay concrete four-lane roads are also expected to shore up demand- 1 km of cement road requires 2,000 tonnes of the building material.

Outlook

The cement industry in India is globally competitive as the industry continues to witness positive trends such as cost control, continuous technology upgradation and increased construction activities. Major cement manufacturers in India are also increasingly using alternate fuels, especially bioenergy, to fire their kilns. This is not only helping to bring down production costs of cement companies, but is also proving effective in reducing emissions. Meanwhile, with the Government of India providing a boost to the infrastructure and various housing projects coming up in urban as well as rural areas, the cement sector has enough scope for development in the future. The weakness in the international crude oil prices and other commodities such as Coal should help bring costs under control and improve profitability of the sector. Higher government spending on infrastructure, robust growth in rural housing and rising per capita incomes are likely to augur well for the cement sector. Moreover, steep rise in cement prices too help cement manufacturer to improve their profit margin.

Companies Financial Data In Industry

Company Name	CMP	MCAP (Rs Crore)	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Shree Cement Ltd.	10873.20	37879.21	1383.48	0.20	207.77	52.33
Sagar Cements Ltd.	333.35	579.63	296.13	0.00	151.60	2.20
Ultratech Cement Ltd.	3154.60	86563.39	675.25	0.29	81.56	38.68
HIL Ltd.	642.65	479.58	572.81	0.78	76.68	8.38
ACC Ltd.	1583.40	29727.60	444.21	1.89	59.80	26.48
Birla Corporation Ltd.	532.75	4102.46	341.76	1.13	22.62	23.55
JK Cement Ltd.	705.30	4931.97	226.98	0.43	22.59	31.23
OCL India Ltd.	521.05	2964.79	208.71	0.77	20.97	24.85
Everest Industries Ltd.	324.50	496.20	207.79	0.77	17.78	18.26
Deccan Cements Ltd.	391.00	273.85	328.46	0.31	14.22	27.50
Indian Hume Pipe Company Ltd.	354.65	859.09	111.71	0.68	12.63	28.07
JK Lakshmi Cement Ltd.	398.90	4693.86	112.19	0.50	11.73	34.00
Kakatiya Cement Sugar & Industries Ltd.	110.55	85.94	226.94	2.44	10.38	10.65
Mangalam Cement Ltd.	319.40	852.60	194.39	0.94	9.70	32.93
Ambuja Cements Ltd.	255.40	39580.51	66.73	1.41	9.58	26.67
Visaka Industries Ltd.	121.25	192.56	211.17	2.06	9.26	13.09
Saurashtra Cement Ltd.	40.25	206.04	34.77	0.00	9.11	4.42
The Ramco Cements Ltd.	362.10	8616.87	108.58	0.28	7.42	48.81
Century Textiles & Industries Ltd.	568.95	5293.83	192.62	0.97	6.87	82.79
Orient Cement Ltd.	189.30	3878.17	45.55	0.79	6.62	28.59

Dalmia Bharat Sugar & Industries Ltd.	22.80	184.54	54.67	0.00	3.86	5.90
Sanghi Industries Ltd.	67.75	1490.36	40.52	0.00	3.18	21.31
Bansal Roofing Products Ltd.	30.00	6.59	18.73	0.00	3.00	9.99
Sahyadri Industries Ltd.	66.20	63.30	122.78	0.76	2.82	23.46
Heidelberg Cement India Ltd.	87.10	1973.80	38.40	0.00	2.41	36.13
Barak Cement Ltd.	14.39	31.89	37.99	0.00	1.37	10.49
Sainik Finance & Industries Ltd.	14.60	15.88	24.55	0.00	0.97	15.13
Ramco Industries Ltd.	94.85	822.00	55.60	0.26	0.83	114.48
Star Ferro and Cement Ltd.	97.30	2161.74	5.36	0.34	0.74	131.05
KCP Ltd.	76.40	984.96	27.55	0.13	0.63	122.20
Burnpur Cement Ltd.	10.11	78.41	13.07	0.00	0.23	44.05
Shiva Cement Ltd.	4.01	74.99	5.09	0.00	0.13	30.95
RCC Cements Ltd.	35.85	20.08	7.92	0.00	0.01	0.00
Gujarat Sidhee Cement Ltd.	30.40	128.76	34.06	0.00	-0.08	0.00
Udaipur Cement Works Ltd.	17.00	501.85	0.62	0.00	-0.15	0.00
Shree Digvijay Cement Company Ltd.	18.80	265.78	14.00	0.00	-0.31	0.00
Jaiprakash Associates Ltd.	26.15	6360.87	57.14	0.00	-0.72	0.00
The India Cements Ltd.	112.00	3440.40	105.37	0.00	-0.83	0.00
Prism Cement Ltd.	104.00	5234.91	21.02	0.00	-1.15	0.00
Orient Paper & Industries Ltd.	24.90	510.12	18.72	0.40	-1.32	0.00
Panyam Cements & Mineral Industries Ltd.	40.40	64.71	10.30	0.00	-1.84	0.00
Andhra Cements Ltd.	10.52	308.78	6.91	0.00	-2.62	0.00
NCL Industries Ltd.	40.00	139.75	34.85	0.00	-10.28	0.00
Anjani Portland Cement Ltd.	76.00	139.76	29.24	0.00	-12.98	0.00

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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