

Gol's continued push on Infra, housing — a key to demand growth

Outlook fortified with current government's manifesto

Current Govt's manifesto fortifies healthy demand outlook for cement

- n After a 12-13% volume growth in the first two quarters of FY19, cement volumes moderated to 10%YoY in 3QFY19. We believe it will moderate further to 6% YoY in 4QFY19.
- n The southern region, which primarily drove demand, witnessed a slowdown in Feb-Mar'19 on account of a high base of the previous year. Also, huge price increases taken by southern players led to lower volumes, as the hikes were not completely absorbed by the market. In North India — demand in Rajasthan declined drastically after the state elections. Demand in Central India too remained muted after the elections in Madhya Pradesh. The eastern region witnessed limited supply from southern players in 4QFY19. Supply of clinker was also affected due to shortage of wagons.
- n The manifesto released by the current government continues to maintain its focus on infrastructure development providing a healthy demand outlook.

Thrust on 'Housing for All' continues...

- n The BJP in its election manifesto reiterated its focus on ensuring 'pucca' houses for families living in 'kuchha' houses or without access to housing, by 2022.
- n We note that the percentage of houses sanctioned under the PMAY scheme has increased rapidly from 22% in Mar'18 to 35% in Mar'19. The completion rate has also increased from 34% to 53% during the same period.
- n Assuming 70% of the targeted houses are completed over FY19-23, the number of completions to be achieved stands at a significant 6.45m units per year.
- n This is expected to drive ~32mt cement demand over FY20, implying 2% incremental growth for the year.

...Roads to see traction as 60,000kms of NH construction over next five years has been announced

- n The government expressed its plans to construct 60,000kms of National Highways over the next five years.
- n In FY19, highway construction and expansion reached its highest pace at ~30km/day, but a major dip in the FY19 awarding activity does flag a concern. Awarding activity in FY19 stood at only 15km/day as compared to 47km/day in FY18. Note that road construction in India also includes widening of existing roads and not just laying of new roads.
- n We estimate road construction rate at ~35km/day in FY20, resulting in additional cement demand of ~4.79mt over FY20. This implies incremental cement demand of ~1% over the same period.

Optimism for Bharatmala and construction of Airports & Ports continues

- n The manifesto plans to expedite the completion of Phase-1 of Bharatmala Project, which includes upgradation of 24,800kms of roads. As at Aug'18, the government had successfully awarded 4,466kms of highways under Bharatmala, since the launch of the scheme. Rajasthan, Maharashtra, Uttar Pradesh, Odisha and Karnataka were among the largest states in terms of road length. The top-10 states account for 90% (~4,000km) of the total projects awarded under the scheme.
- n It also aims to increase the number of operational airports to 150 from the current number of 101, and port capacity to 2,500mtpa from the current capacity of 1,451mtpa.

Valuation and view

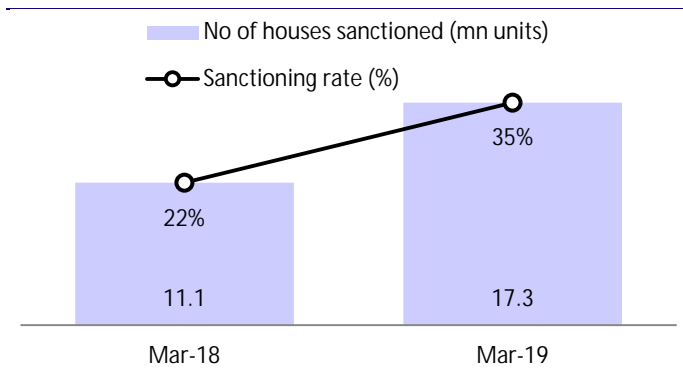
- n While cement prices have rallied in recent weeks, we believe it was purely due to production curtailment and can provide benefit to players in the short term. Also, the recent correction in crude prices should result in a lower cost curve for companies in the near term, in our view.
- n Effective utilization for entire India has improved from close to 64% in FY18 to 69% in FY19. However, the huge capacity addition over the next two years should result in utilizations improving marginally by 200bp to 71%. We expect EBITDA/t CAGR of 10% over FY19-21 for our coverage universe. RoCEs of the cement universe should increase from 7.7% in FY19 to 9.7% in FY21.
- n Over the medium term, we are positive on ACC, which is on a growth capex mode with plans to increase profitability through (a) higher sales of premium products, and (b) cost rationalization. The stock trades attractively at 7.8x CY20 EV/EBITDA and USD96/ton. The company's valuation discount of over 30% to large caps on EV/ton and EV/EBITDA should narrow substantially. We value ACC at 9x CY20E EV/EBITDA to arrive at a target price of INR1,863.

Cement: Valuation summary

	CMP	RECO	ROE (%)			PE (x)			EV/EBITDA (x)			EV/Ton (USD)		
			FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
ACC	1,634	Buy	10.8	12.3	14.3	28.5	22.6	17.4	12.8	10.0	7.8	113	104	96
ACEM	224	Neutral	6.1	6.0	6.7	23.4	22.8	20.1	13.3	12.6	11.0	118	119	115
UTCCEM	4,127	Buy	8.0	9.6	10.4	52.5	38.9	30.2	19.8	16.3	13.3	189	173	161
SRCM	18,961	Buy	13.9	15.5	17.4	51.0	41.2	31.6	22.0	17.0	13.4	223	191	174
BCORP	502	Buy	5.4	8.8	11.4	16.6	9.6	6.8	7.6	6.1	4.9	62	63	61
ICEM	93	Neutral	1.7	3.1	4.4	38.3	20.0	13.8	9.7	8.1	7.2	56	55	56
JKCE	868	Buy	13.3	14.4	15.4	24.2	20.0	16.5	8.9	9.6	7.7	84	78	74
JKLC	355	Buy	4.9	9.0	13.6	58.1	29.6	17.6	12.5	9.5	7.0	60	56	51
MCEM	758	Buy	11.9	14.1	15.9	35.4	26.6	20.6	17.7	14.5	11.0	148	131	125
ORCMNT	93	Buy	0.5	7.4	12.5	353.7	24.8	13.4	12.6	9.1	6.4	53	47	36
PRISM	93	Buy	12.8	14.3	14.3	34.1	27.2	24.1	10.9	10.2	9.7	70	66	65
SNGI	62	Buy	1.9	3.5	3.5	53.4	28.2	26.6	16.7	14.5	8.9	56	50	50

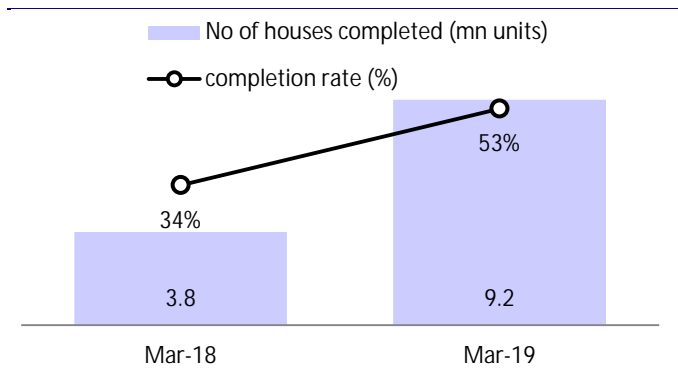
Story in charts

Exhibit 1: Sanctioning rate has increased from 22% in Mar'18 to 35% in Mar'19



Source: MOFSL, Company

Exhibit 2: Completion rate has increased from 34% in Mar'18 to 53% in Mar'19



Source: MOFSL, Company; Completion rate is calculated as (houses completed/houses sanctioned)

Exhibit 3: Assuming 70% of the targeted houses are completed over FY19-23, the number of completions to be achieved stands at a significant 6.45m units per year. ..

	FY19 YTD	FY20E	FY21E	FY22E	FY23E
Total target	9.20	10.20	10.20	10.20	10.20
70% of target	9.20	6.45	6.45	6.45	6.45
50% of target	9.20	3.95	3.95	3.95	3.95

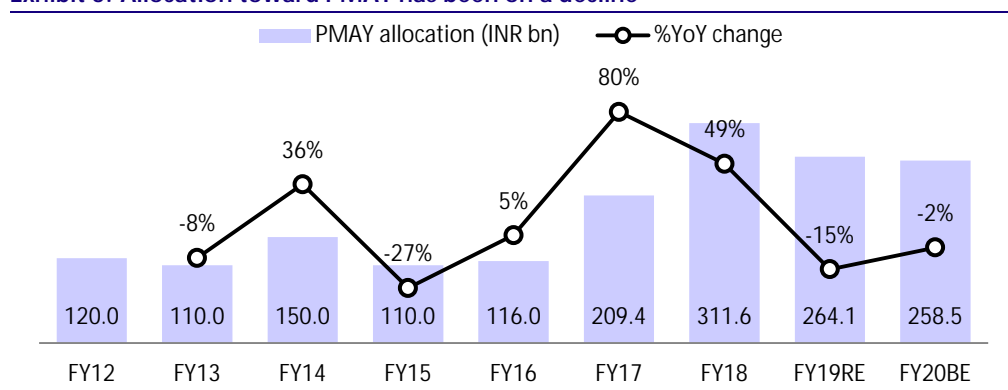
Source: MOFSL, Company

Exhibit 4: ..This would drive incremental cement demand of ~32mt over FY20, implying 2% growth for the year.

Cement demand from PMAY (MT)	FY20E	FY21E	FY22E	FY23E
Total target	51.0	51.0	51.0	51.0
70% of target	32.3	32.3	32.3	32.3
50% of target	19.8	19.8	19.8	19.8

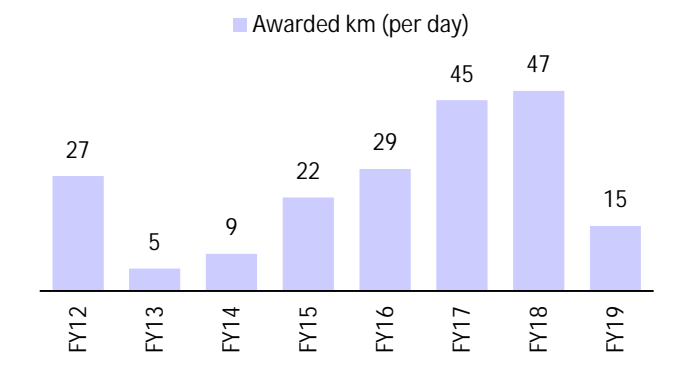
Source: MOFSL, Company

Exhibit 5: Allocation toward PMAY has been on a decline



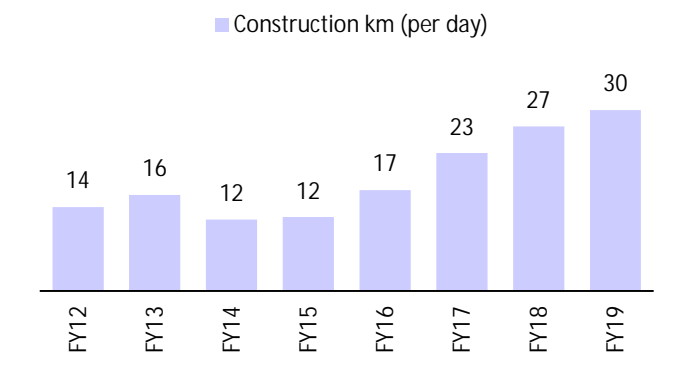
Source: MOFSL, Government Budget documents

Exhibit 6: Awarding activity de-grew 68% YoY in FY19



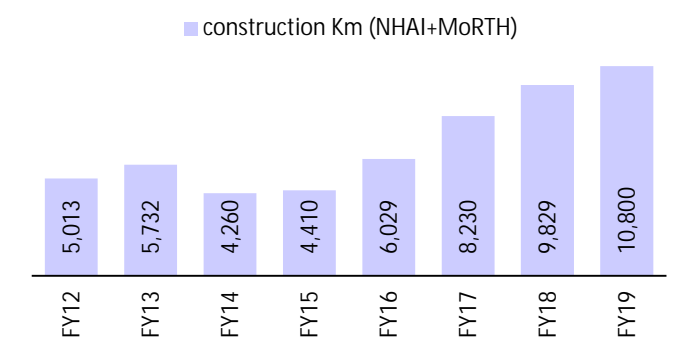
Source: MOFSL,NHAI

Exhibit 7: Construction activity increased all time high to 30km/day in FY19



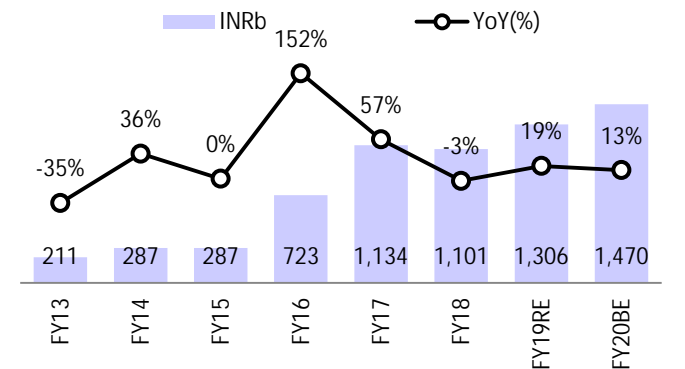
Source: MOFSL,NHAI

Exhibit 8: Highest construction achieved during the BJP reign



Source: MOFSL,NHAI

Exhibit 9: Allocation for road budget over the years



Source: MOFSL,NHAI

Exhibit 10: Incremental cement demand of ~1% over FY19-20

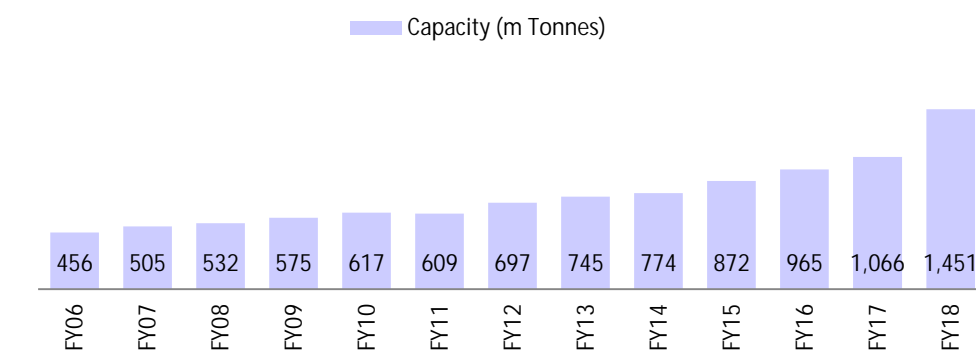
Cement / km of road (tons)	3,750
FY18 construction per day per km	27
FY19 construction per day per km	30
FY20 construction per day per km	35
Increase in average construction per day per km	5
Additional construction of road over FY19-FY20 in km	1825
Additional cement required for road const. over FY19-FY20 in mt (assumption only 40% of incremental roads are concretized)	4.79
Annual additional cement demand from road construction in mt	2.4
% increase in average cement demand	1%

Source: MOFSL

Exhibit 11: Components of Bharatmala Pariyojna (Phase-I)

Category	Description	Total Length Identified (km)	Upgrade proposed in phase I (km)
National Corridors Efficiency Improvement	✓ Lane expansion, de-congestion of existing National Corridors	13,100	5,000
Economic Corridors development	✓ Connection of economically important production & consumption centers	26,200	9,000
Inter-corridor and Feeder routes development	✓ Inter-connection between economic corridors, first mile & last mile connectivity	15,500	6,000
Border and International Connectivity Roads	✓ Connectivity to border areas and boosting trade with neighboring countries	5,300	2,000
Coastal and Port Connectivity Roads	✓ Connectivity to coastal areas to enable port-led economic development	4,100	2,000
Expressways	✓ Greenfield expressways	1,900	800
Total		66,100	24,800

Source: Government website

Exhibit 12: Major Ports capacity over the years

Source: MOSL, Company

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
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