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Consolidation may boost cement cos' pricing power

The industry may also witness improved utilization levels, said JM Financial analysts

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Investors are monitoring the changing dynamics in the cement sector following Adani group's acquisition of ACC and Ambuja Cements.

After the new owner of the of Holcim Group companies announced its fund raising plans to double cement manufacturing capacity by 2030 to 140 million tonnes per annum, analysts said consolidation will be a likely outcome.

Analysts, however, said consolidation will be beneficial for the industry. For one, it will help improve the pricing power of companies. Ambuja Cements and ACC have lagged in capacity addition over the last few years and are running at over 85% capacity.

Considering that the two companies are operating at optimal capacities, the fight for market share gains may not get intense in the short term, considering that their expansion will take time to materialize. Furthermore, to achieve the desired capacities, it is likely to take the inorganic route.

JM Financials analysts said a disruption in market dynamics due to Adani's entry is not likely as ACC and Ambuja have high utilization levels and are not likely to disturb pricing or volumes.

Besides, consolidation is mutually beneficial for both the acquirer and the target firm on account of valuation disparity (as mid-caps trade at a 40% discount compared to large-caps on enterprise value per tonne), analysts said. Larger players have net cash balance sheets, minimal leverage and aggressive expansion and acquisition plans and the Adani Group-led industry consolidation via inorganic growth is a possibility for the sector, JM Financial analysts said.

An analyst at a domestic brokerage, seeking anonymity, said that while no major development on consolidation has been visible, acquirers may look at companies with access to limestone reserves and trading at cheaper valuations (replacement cost of $90 a tonne).

While it is difficult to predict the timing of a merger or acquisition, top players are getting aggressive, and analysts at Jefferies India Pvt. Ltd believe over 50 million tonnes of capacity can change hands within 2-3 years.

The sector is also expected to do well on many accounts, including improved utilization backed by balance in incremental demand-supply, which leads to a stable pricing environment, according to analysts as JM Financial.

Cement demand is expected to grow. FY23 can see volume growth of over 10% considering that the first half of the fiscal year saw good volume growth.

"FY23 could see strong more than 10% year-on-year demand growth (incremental demand of sizeable over 35 million tonnes per annum) with 1HFY23 demand already in excess of 12% year-on-year and 3QFY23 also likely to see 10-15% growth on a low base," analysts at Antique Stock Broking said.

"FY24E may also see strong demand momentum continuing accelerated by higher government spend on infrastructure owing to the general elections and large states elections such as in Maharashtra, Andhra Pradesh, and Telangana, in first half FY24," analysts added.

Moderation in power and freight costs may also lead to a subsequent expansion in Ebitda per tonne, and structural improvement in Ebidta per tonne, driven by better prospects and internal improvements in the industry, said analysts. Ebidta is earnings before interest, taxes, depreciation, and amortization. Cement prices are improving with the end of the monsoons. Cement demand will rise once the festive season ends, they said.

The Adani Group-led industry consolidation via inorganic growth is a possibility for the sector. ISTOCKPHOTO

CEMENTING TIES

CEMENT demand is expected to grow, volumes likely to grow by over 10% in this financial year

LARGE cement manufacturers have aggressive expansion and acquisition plans

CONSOLIDATION is beneficial for both acquirer and target firm on account of valuation disparity

INDUSTRY leaders likely to add over 50 million tonnes of capacity within 2-3 years

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