

Cement



GST: Destocking to impact volumes marginally

Our interaction with retailers/dealers across regions indicated a transitory impact of GST on sales, as retailers resorted to destocking in June. East and south witnessed material channel destocking while northern, central and western regions indicated a mixed response. On an average, destocking has impacted the sales of 3-6 days in June, impacting 1QFY17 volumes by <5%. Prices in June have remained stable post the cuts taken in the beginning of the month (-2.2% MoM). June quarter prices were higher by 6.3%/7.5% on YoY/QoQ basis. In addition, May production data witnessed growth (1.8%/6.6% YoY/MoM) first time after demonetisation. While GST could result in short-term disruptions, cement volume growth will remain contingent on demand from affordable housing and infrastructure spend.

- **North witnesses mixed impact of GST:** Channel check in **Delhi** indicated a limited impact on the cement demand/supply. Retailers usually keep a minimum inventory (3-4 days), as the supply is done frequently from grinding units in adjoining areas. Retailers are not reducing the stocks. **Jaipur** has witnessed good demand during June. Government's announcement of a 90-day window after GST implementation to claim the input tax credit has mitigated concerns partially. Demand in **Ludhiana** has been slow. Retailers have reduced stocks in the run up to GST. Based on our conversation with dealers/retailers, uncertainty remains on the way billing is to be done post GST implementation.
- **East—inventory impact of around 5-6 days:** Retailers in **Kolkata** have reduced their stocks from 8-10 days inventory to 2-3 days inventory. Companies had announced price hikes in the middle of June, but it was not implemented on low demand. No incentives were offered by the companies to increase stock purchases. Channel checks in **Bhubaneshwar** indicated destocking by retailers. Even with the government giving 90-days time to claim the input tax credit and companies giving discount to push sales, the weak demand and implementation of GST has impacted sales in Bhubaneshwar.
- **West—limited impact of GST on cement:** **Pune** witnessed limited impact of GST implementation, as the government's announcement of a 90-days window to claim input tax credit partially mitigated the concerns of retailers/dealers. Retailers in **Mumbai** have reduced the stocks from 8-10 days inventory to 2-3 days inventory. Demand in the region is muted for June. **Ahmedabad** is witnessing a limited impact of GST and sales are happening as usual. However, the demand itself is muted. Ambuja has announced compensation for losses incurred by dealers/retailers on stocks outstanding, as on 30Jun'17.
- **South—destocking to impact sales for June:** Retailers in **Chennai** have brought down the stocks to 3-4 days inventory currently. Demand is witnessing a slow down on unavailability of sand. Retailers in **Bangalore** too have started destocking the inventory to 2-3 days of inventory from 8-10 days earlier due to limited clarity on claiming input tax credit. Limited clarity on billing is also an issue, as most of the downstream players do not use computers for billing. **Hyderabad** retailers are keeping limited inventory on GST implementation. Companies have limited the production of cement in the region and fulfilling the requirement from stocks in the inventory.
- **Central—mixed response from retailers:** Dealers/Retailers in **Bhopal** have reduced the stocks in the inventory from 10 days earlier to negligible inventory currently. Similarly in **Lucknow**, the retailers have reduced the inventory to 2-3 days from 10-12 days earlier. **Indore**, however, indicated a limited impact of GST implementation on channel stocking. Sales are being undertaken as usual in the region.

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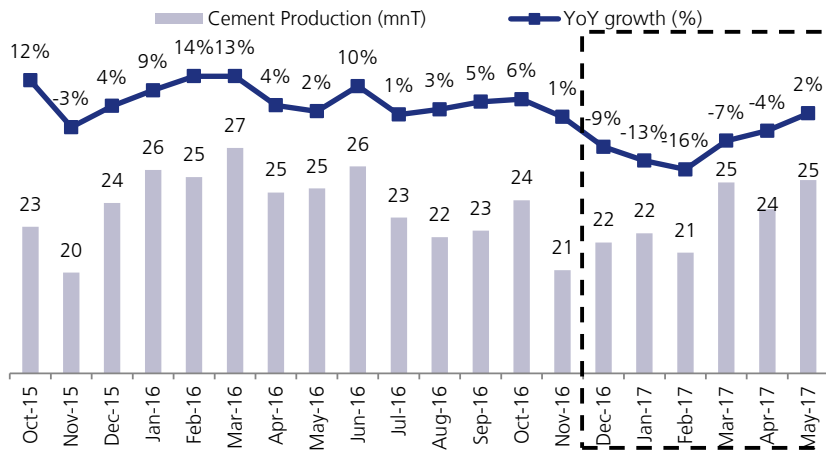
Exhibit 1. Excerpts from GST rules document on Input tax credit for goods in stock

Transitional arrangements for input tax credit -

- **Closing balance of the credit in the last returns -** The closing balance of the CENVAT credit/VAT in the last returns filed under the existing law can be taken as credit in electronic credit ledger. Such credit would be available only when returns for the previous last six months have been filed under the existing law. **In order to claim this credit, declaration in form GST TRAN 1 is required to be furnished on the common portal within ninety days from the day GST comes into force**
- **Credit on duty paid stock -** A registered taxable person, other than the manufacturer or service provider, may have duty paid goods in his stock on the appointed day. GST would be payable on all supplies of goods or services made after the appointed day. **In such cases, it has been provided that the credit of the duty/tax paid earlier would be admissible as credit.** Such credit can be taken as under:
 - Credit shall be taken on the basis of invoice evidencing payment of duty of excise or VAT
 - Such invoices should be less than one-year old
 - Declare the stock of duty paid goods within the prescribed time on the common portal
- **Credit on duty paid stock when Registered Person does not possess the document evidencing payment of excise duty/VAT – (scheme is operative only for six months and available for traders only)**
 - **Credit at 60% on such goods which attract central tax at 9% or more and at 40% for other goods of GST paid on the stock cleared after the appointed day would be allowed.** Where integrated tax is paid on such goods, credit shall be available at 30% and 20% respectively.
 - Credit will be allowed after GST is paid on such goods and benefits of such credit is passed on to the customer
 - The statement of supply of such goods in each of the six tax periods has to be submitted
 - Stocks stored should be easily identifiable

Source: [GST transitional rules document](#)

Exhibit 2. Cement production trends



Source: Industry, JM Financial

Exhibit 3. Cement pricing trend

| City | Jun-17 | May-17 | Jun-May MoM % chg. | Apr-17 | May-Apr MoM % chg. | Jun-16 | Jun'17 YoY % chg. | Q1'18 | Q1'17 | YoY% chg. | Q4'17 | QoQ % chg. |
|--------------------------|------------|------------|--------------------------|------------|--------------------------|------------|-------------------------|------------|------------|--------------|------------|---------------|
| EAST | 346 | 353 | -2.0 | 345 | 2.4 | 326 | 8.3 | 348 | 321 | 8.3 | 313 | 11.2 |
| Kolkata | 345 | 350 | -1.4 | 340 | 2.9 | 317 | 10.4 | 345 | 306 | 12.6 | 302 | 14.4 |
| Patna | 340 | 350 | -2.9 | 335 | 4.5 | 330 | 6.1 | 342 | 327 | 4.6 | 305 | 12.0 |
| Bhubaneswar | 320 | 330 | -3.0 | 330 | 0.0 | 305 | 8.2 | 327 | 312 | 4.8 | 302 | 8.3 |
| Guwahati | 390 | 395 | -1.3 | 390 | 1.3 | 373 | 5.9 | 392 | 371 | 5.6 | 370 | 5.9 |
| WEST | 325 | 338 | -3.6 | 312 | 8.2 | 300 | 12.4 | 325 | 294 | 10.4 | 282 | 15.2 |
| Mumbai | 345 | 360 | -4.2 | 330 | 9.1 | 307 | 17.3 | 345 | 305 | 13.2 | 311 | 11.1 |
| Ahmedabad | 300 | 305 | -1.6 | 283 | 7.8 | 300 | 1.7 | 296 | 297 | -0.2 | 235 | 25.8 |
| Pune | 325 | 345 | -5.8 | 325 | 6.2 | 285 | 21.1 | 332 | 260 | 27.6 | 302 | 9.9 |
| NORTH | 311 | 313 | -0.4 | 336 | -7.0 | 311 | 0.7 | 320 | 307 | 4.4 | 307 | 4.2 |
| Delhi | 310 | 320 | -3.1 | 350 | -8.6 | 310 | 3.2 | 327 | 303 | 7.7 | 308 | 5.9 |
| Jaipur | 287 | 285 | 0.7 | 310 | -8.1 | 305 | -6.6 | 294 | 298 | -1.5 | 280 | 5.0 |
| Ludhiana | 330 | 320 | 3.1 | 330 | -3.0 | 305 | 4.9 | 327 | 310 | 5.4 | 325 | 0.5 |
| SOUTH | 352 | 362 | -2.8 | 364 | -0.6 | 352 | 3.0 | 359 | 338 | 6.4 | 343 | 4.8 |
| Hyderabad | 310 | 320 | -3.1 | 320 | 0.0 | 300 | 6.7 | 317 | 268 | 18.0 | 292 | 8.6 |
| Chennai | 370 | 380 | -2.6 | 370 | 2.7 | 380 | 0.0 | 373 | 383 | -2.6 | 375 | -0.4 |
| Bangalore | 370 | 380 | -2.6 | 395 | -3.8 | 370 | 2.7 | 382 | 360 | 6.0 | 358 | 6.5 |
| CENTRAL | 299 | 303 | -1.4 | 310 | -2.4 | 313 | -3.2 | 304 | 300 | 1.2 | 297 | 2.5 |
| Bhopal | 310 | 310 | 0.0 | 300 | 3.3 | 290 | 6.9 | 307 | 288 | 6.4 | 297 | 3.4 |
| Indore | 315 | 320 | -1.6 | 310 | 3.2 | 290 | 10.3 | 315 | 285 | 10.5 | 297 | 6.2 |
| Lucknow | 290 | 295 | -1.7 | 310 | -4.8 | 320 | -7.8 | 298 | 303 | -1.6 | 294 | 1.5 |
| All India average | 329 | 336 | -2.2 | 335 | 0.1 | 322 | 4.4 | 333 | 313 | 6.3 | 310 | 7.5 |

Source: JM Financial

APPENDIX I

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|-----------------------|--|
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