

# Cement

## Marginal softening in July MoM; west impacted the most

Cement prices across regions witnessed a marginal 1.2% decline MoM in July'17; YoY growth of 1%. Western region witnessed a material price decline of 5.2% sequentially in July'17. East witnessed -1%/6% growth on MoM/YoY basis. Prices in south grew by 1.9% MoM. Prices in north were flat sequentially, however, there was a decline of 4.9% YoY in July'17. Central region witnessed 2.6% decline MoM. Chennai and Lucknow regions are experiencing sand unavailability issue which has adversely impacted cement demand in the region. With the softening of prices in July, we expect the companies having exposure to the west to be impacted the most if the current trend continues (c.Rs330/t EBITDA impact). While, Jul-Sep quarter is seasonally weak quarter for cement sales and prices on slower construction pace, we believe cement sector performance will be contingent on demand recovery in 2HFY18 as demand from affordable housing and infrastructure commences. In addition, normal monsoon will lead to higher rural income which will lead to improvement in demand in 2H.

- **West – material MoM price decline across the region:** Region witnessed a material, 5.2% decline in cement prices MoM in July'17; however, prices grew by 11.4% on a YoY basis. **Mumbai** witnessed a 5.8% sequential decline in the cement prices in July'17; on a YoY basis, prices in Mumbai increase by 19.5%. Prices in **Ahmedabad** declined by 3.3% MoM, while there was a YoY growth of 1% in cement prices. Cement prices in **Pune** declined by 7.1% MoM; on a YoY basis prices grew by 9.8%.
- **South – 2% increase in cement prices MoM:** Cement prices in south grew marginally by 1.9% sequentially in July'17; YoY growth of 4.8%. **Hyderabad** witnessed a cement prices increase of 1.6% MoM. Prices in **Chennai** increased marginally by 1.4% MoM, however, cement prices declined by 3.8% on a YoY basis in July'17. Issue of sand unavailability in the region has adversely impacted the cement demand in the region. Prices in **Bangalore** increased by 2.7%/5.6% on a MoM/YoY basis in July'17.
- **North – largely flat MoM:** Cement prices in the north declined by 0.5%/4.9% on a MoM/YoY basis in July'17. Cement prices in **Delhi** region increased by a modest 0.6% MoM, however, prices in the region declined by 5.5% on a YoY basis. Prices in **Jaipur** declined by 1.4%/3.1% on a MoM/YoY basis. **Ludhiana** witnessed a MoM decline in the cement prices to the tune of 1.5%; on a YoY basis there was a decline of 5.8% in the region around Ludhiana.
- **East – a marginal decline on sequential basis:** Prices in east have declined marginally by 1% MoM in July'17. However, cement prices in the region were higher by 6% on a YoY basis. Cement prices in Bhubaneshwar and Guwahati were flat MoM in July'17. On a YoY basis, **Bhubaneshwar** witnessed a maximum cement price increase in the region of 12.3% YoY. Prices in **Guwahati** grew by 4.8% on a YoY basis. Prices in **Patna** were marginally higher by 1.5% MoM, while on a YoY basis cement prices increased by 9.5% in July'17. **Kolkata** witnessed a price decline of 2.9% sequentially; while, there was a 2.4% YoY increase in the cement prices.
- **Central – 2.6% MoM decline in July'17:** Prices in central region witnessed a 2.6% decline in July'17 sequentially. Sequentially, prices in the Lucknow declined by 3.4% in July'17. Cement prices in **Bhopal** have been flat on MoM and YoY basis. **Indore** witnessed a MoM decline of 1.6% while the prices were higher on a YoY basis by 3.3%. Persistence in the sand unavailability issue in UP has impacted the demand in the region. Dealers expect increased supply from Jaiprakash assets following acquisition by Ultratech.
- Companies with highest exposure to Western market are Ultratech (19.8mnT) and Ambuja (11.2mnT). If the current trend continues, we see an EBITDA/t decline of Rs330/t in the region (Exhibit 4,5,6). While price decline is a concern, Jul-Sep quarter is seasonally weak quarter on account of monsoon (22% of full year volumes). Normal monsoon (+3% all India- Exhibit 7-8) and higher demand from affordable housing/infrastructure will be key for improvement in operations across regions.

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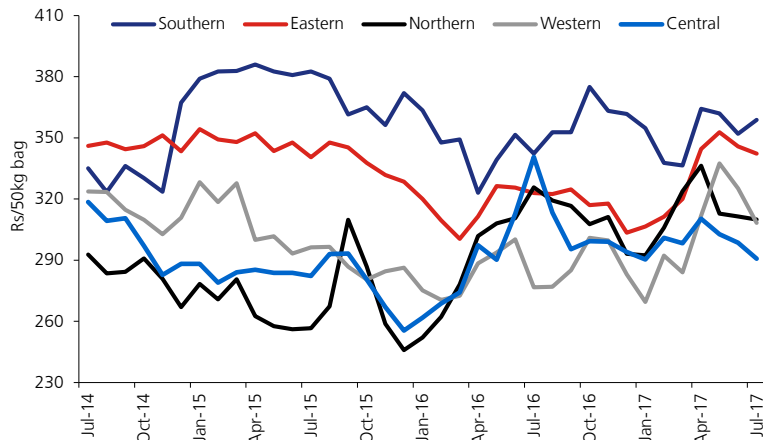
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## Exhibit 1. Sequential softening in pricing in July'17

City	Jul-17	Jun-17	Jul-Jun MoM % chg	May-17	Jun-May MoM % chg	Jul-16	Jul'17 YoY % chg
<b>EAST</b>	<b>342</b>	<b>346</b>	<b>-1.0</b>	<b>353</b>	<b>-2.0</b>	<b>323</b>	<b>6.0</b>
Kolkata	335	345	-2.9	350	-1.4	327	2.4
Patna	345	340	1.5	350	-2.9	315	9.5
Bhubaneswar	320	320	0.0	330	-3.0	285	12.3
Guwahati	390	390	0.0	395	-1.3	372	4.8
<b>WEST</b>	<b>308</b>	<b>325</b>	<b>-5.2</b>	<b>338</b>	<b>-3.6</b>	<b>277</b>	<b>11.4</b>
Mumbai	325	345	-5.8	360	-4.2	272	19.5
Ahmedabad	290	300	-3.3	305	-1.6	287	1.0
Pune	302	325	-7.1	345	-5.8	275	9.8
<b>NORTH</b>	<b>310</b>	<b>311</b>	<b>-0.5</b>	<b>313</b>	<b>-0.4</b>	<b>326</b>	<b>-4.9</b>
Delhi	312	310	0.6	320	-3.1	330	-5.5
Jaipur	283	287	-1.4	285	0.7	292	-3.1
Ludhiana	325	330	-1.5	320	3.1	345	-5.8
<b>SOUTH</b>	<b>359</b>	<b>352</b>	<b>1.9</b>	<b>362</b>	<b>-2.8</b>	<b>342</b>	<b>4.8</b>
Hyderabad	315	310	1.6	320	-3.1	275	14.5
Chennai	375	370	1.4	380	-2.6	390	-3.8
Bangalore	380	370	2.7	380	-2.6	360	5.6
<b>CENTRAL</b>	<b>291</b>	<b>299</b>	<b>-2.6</b>	<b>303</b>	<b>-1.4</b>	<b>341</b>	<b>-14.6</b>
Bhopal	310	310	0.0	310	0.0	310	0.0
Indore	310	315	-1.6	320	-1.6	300	3.3
Lucknow	280	290	-3.4	295	-1.7	353	-20.8
<b>All India average</b>	<b>325</b>	<b>329</b>	<b>-1.2</b>	<b>336</b>	<b>-2.2</b>	<b>321</b>	<b>1.0</b>

Source: JM Financial

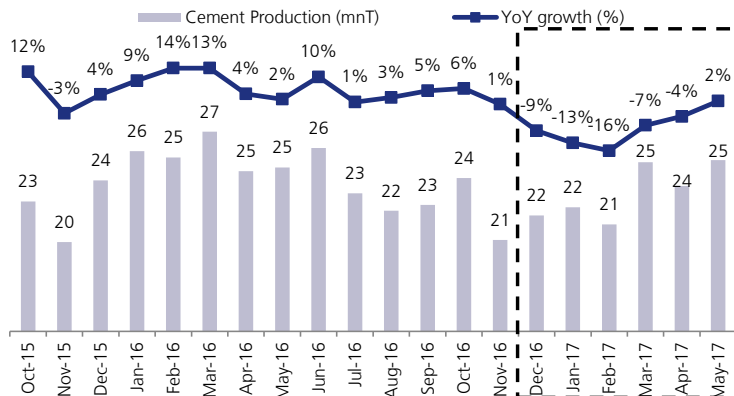
## Exhibit 2. Cement price trends



Source: JM Financial

- Cement production posted a modest 2% growth post the decline due to demonetisation

## Exhibit 3. Cement Production – YoY growth in May'17 after demonetisation



Source: Industry, JM Financial

- Western region to be impacted the most due to softening of the cement prices in July'17 vs 1QFY18

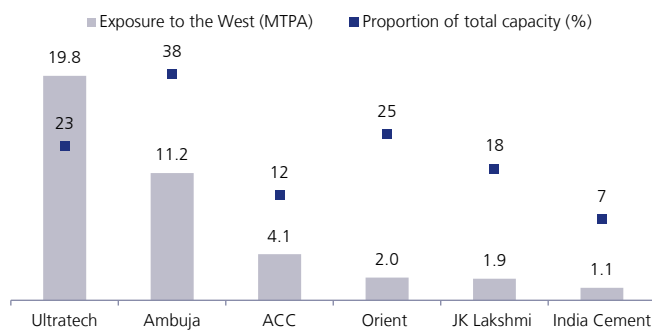
**Exhibit 4. Per tonne impact of change in cement prices**

	1QFY18 (Rs/bag)	July'17 (Rs/bag)	Per tonne impact (Rs/t)
North	320	310	<b>-206</b>
South	359	359	<b>-13</b>
East	348	342	<b>-108</b>
West	325	308	<b>-331</b>
Central	304	291	<b>-262</b>

Source: JM Financial

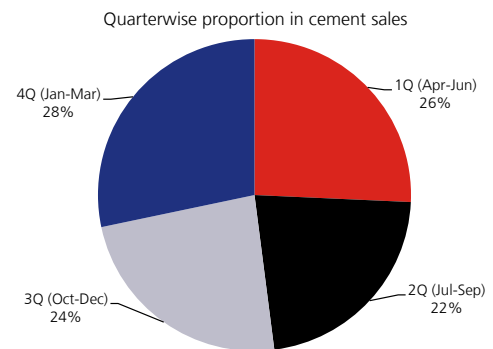
- 38% of the capacity of Ambuja has exposure to the west
- Jul-Sep is seasonally a weak quarter for the cement, with around 22% of the whole year sales being realised during the quarter

**Exhibit 5. Company-wise exposure to west**



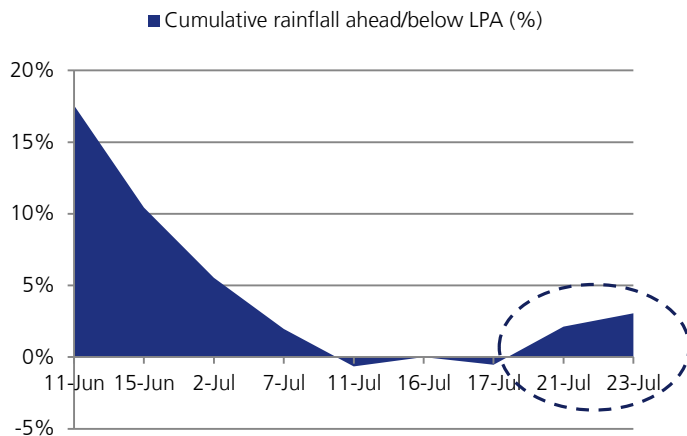
Source: Industry, Company, JM Financial

**Exhibit 6. Jul-Sep – generally slow quarter for cement sales**



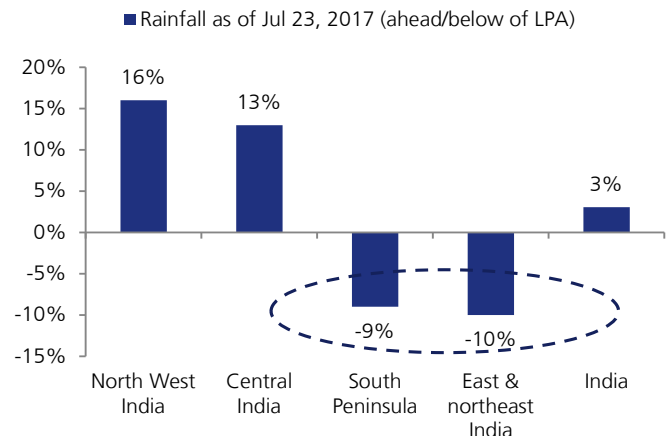
Source: Industry, Company, JM Financial

**Exhibit 7. Monsoon picked up during last one week – Overall ahead by 3% from Long Period average (LPA)**



Source: IMD

**Exhibit 8. ..Distribution of rainfall remains same – Southern states and Eastern States continued to see deficient rains**



Source: IMD

## APPENDIX I

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