



28 March 2018

Price weakness extended; improvement likely amidst robust demand....!!!

Pricing pressure observed during the month of February 2018 has further extended during the month of March primarily due to volume push by companies at competitive prices in order to achieve year end targets. **Considering limited volume push by players in the coming months and April-June quarter being the peak construction activity season, market participants expect price hikes of Rs 10-25/bag in April 2018 in most of the regions; however, select pockets of South may surprise with sharp price hikes of Rs 50-60/bag.**

Key highlights of our interactions with dealers and market participants

- All India average trade price is down by Rs 5/bag (MoM) to Rs 307 in March 2018. Regional price trend for the month of March is (MoM) –Central flat, East down Rs 4/bag, West and North down Rs 5/bag and South down Rs 9/bag.
- Strong pricing trend in East and Central has led to ~3% YoY (flat QoQ) increase in all India average price of 4QFY18. Average retail prices in 4QFY18 for East/Central/West would be higher by ~11%/10%/1% on YoY basis, whereas South would witness YoY fall of ~6%. North prices would remain flat on YoY basis.
- Despite gradual improvement in Tamil Nadu demand and continuance of strong demand scenario in Andhra Pradesh and Telangana, prices continue to remain severely under pressure in most of the pockets (barring Kochi) of South and currently South's average price is hovering around four years' low.
- Cement prices in eastern region so far have been firm at higher level with \pm Rs 5-10/bag fluctuation during the current month. Commentary on demand is positive for most of the pockets except Chhattisgarh where some of the dealers have highlighted that delay in disbursal of funds for government related projects has led to slowdown in construction activities during the current month.
- Despite ramp-up of JPA Assets, cement prices in central region continue to remain firm at higher level for the last couple of months which is primarily attributed to gradual improvement in demand in Uttar Pradesh (led by improving availability of sand), steady demand in Madhya Pradesh and better pricing discipline.
- Weak price discipline among players coupled with muted construction activities in Rajasthan (due to continuance of sand issue) and Punjab (due to recent clamp down on illegal sand mining) continue to put pressure on prices (Rs 5-10/bag price decline in March 2018) in most of the pockets of northern region.
- Though, prices in Gujarat have been largely stable, higher volume push by players and range bound demand scenario in parts of the Maharashtra have negatively impacted pricing trend in Maharashtra. Overall, western region has witnessed price fall of Rs 5-10/bag during the current month.

Amidst sand issues in select pockets, most of the pockets have witnessed encouraging demand in the current month

Strong pricing trend in East and Central has led to ~3% YoY (flat QoQ) increase in 4QFY18 all India average price

Market participants expect price hike of Rs 10-25/bag in April 2018 in most of the regions; however, select pockets of South may surprise with sharp price hike of Rs 50-60/bag

Trade prices

(Rs/bag)	Mar 17	Feb 18	Mar 18
Central	307	325	325
Eastern	296	325	321
Northern	308	294	289
Southern	343	327	318
Western	283	293	288
India	306	312	307

Outlook and valuation

Considering April-June quarter being a peak season, we expect construction activities would gather momentum at retail and institutional level leading to meaningful demand upsurge going forward. Though, volume push by players has led to softening of prices for the last few months, we believe rising utilisation levels, lesser volume push aggression among players and absence of any relief from ongoing cost pressure would be key triggers for price hikes in the coming months. Therefore, we remain structurally positive on the sector. Our top picks are – UltraTech Cement, The Ramco Cements and Sagar Cements.

- **UltraTech Cement:** Though integration of JPA Assets has put some pressure on the profitability, we believe UltraTech would be best play on cyclical upturn in Indian cement industry over medium to long-term considering large scale of operation, strong brand recognition, logistic synergy and cost efficiency.
- **The Ramco Cements:** Surplus capacity to tap healthy volume growth (increasing exposure to eastern market and healthy demand in southern region), premium pricing, cost saving measures and de-leveraging of balance sheet would continue to drive industry leading profitability and growth factor.
- **Sagar Cements:** SCL is well placed to capture the upcoming robust demand in its core market (Andhra Pradesh, Telangana and Maharashtra) and set to improve its operating efficiency (reduction in lead distance post-acquisition of BMM and newly acquired grinding unit, completion of WHRS and positive operating leverage).

Valuation matrix

	CMP (Rs)	Rating	EV/EBITDA (x)		EV/tonne (US\$)		PER (x)		RoE (%)		RoCE (%)	
			FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
ACC*	1,524	OP	11.4	8.6	119	113	23.6	17.6	12.5	15.2	16.7	20.4
Ambuja Cements*	232	OP	10.7	8.2	127	117	22.7	18.4	9.6	11.2	13.7	16.3
UltraTech Cement	3,979	OP	15.3	12.3	215	192	30.3	22.2	13.6	16.8	13.3	16.6
Shree Cement	16,095	UP	15.3	12.6	228	226	27.8	23.5	21.3	21.5	25.2	27.0
India Cements	144	BUY	7.7	6.3	73	71	19.7	11.9	4.3	6.9	7.5	9.5
The Ramco Cements	741	BUY	13.2	10.5	184	152	22.1	16.8	17.3	19.5	18.1	21.6
Birla Corporation	734	OP	9.9	8.0	92	90	31.6	16.3	5.3	9.7	7.5	9.9
HeidelbergCement India	143	OP	9.1	7.2	104	101	19.1	14.0	15.7	19.2	18.4	22.8
Sagar Cements	909	BUY	10.1	7.1	59	56	22.1	12.1	10.2	16.4	13.1	18.7
Sanghi Industries	116	OP	10.0	8.1	117	115	17.8	14.0	10.0	11.4	9.4	10.9
Prism Cement#	113	UP	13.4	10.4	105	82	32.6	19.9	15.1	20.7	12.3	15.9
Century Textiles	1,154	OP	12.2	10.4	—	—	23.0	18.1	18.4	19.8	14.1	17.0

*Year end December. #EV/tonne adjusted for TBK and RMC.

Note: OP – Outperformer, UP – Underperformer.

Regional trend

Central region: Price outperformance continues

Region	Location	Monthly price (Rs/bag)			YoY	MoM	Non-trade prices (Rs/bag)		Comments
		Mar 17	Feb 18	Mar 18			Feb 18	Mar 18	
Central	Kanpur/ Lucknow	330	355	360	30	5	260-290	260-290	Cement prices continue to remain firm at higher level supported by healthy demand. Another price hike of Rs 5/bag is expected in the coming month.
	Bhopal/ Indore	290	310	305	15	(5)	240-260	240-260	Demand is expected to move up in the coming quarter on the back of traction in government backed projects.

Eastern region: Strong demand and pricing trend to continue

Region	Location	Monthly price (Rs/bag)			YoY	MoM	Non-trade prices (Rs/bag)		Comments
		Mar 17	Feb 18	Mar 18			Feb 18	Mar 18	
East	Raipur	225	245	235	10	(10)	195-220	190-205	Moderate demand has been observed during the current month due to delay in disbursement of funds for government related projects.
	Ranchi	310	340	340	30	0	260-295	260-295	Demand and pricing trend has been largely stable for last couple of months.
	Patna	330	375	370	40	(5)	265-295	265-290	Demand is good. Price hike of Rs 10/bag is expected during the next month.
	Bhubaneswar	280	310	315	35	5	250-270	250-270	On the back of healthy demand and supply constraints due to limited availability of rakes, dealers expect another round of price hike in the coming month.
	Kolkata	335	355	345	10	(10)	300-320	295-310	Higher volume push at competitive prices by some of the players has led to decline in prices.

Northern region: Gradual price recovery is expected in the coming month

Region	Location	Monthly price (Rs/bag)			YoY	MoM	Non-trade prices (Rs/bag)		Comments
		Mar 17	Feb 18	Mar 18			Feb 18	Mar 18	
North	Delhi	310	295	285	(25)	(10)	230-245	225-240	Strong price recovery in January 2018 was not sustainable and cement prices have declined during February-March 2018.
	Punjab	335	315	315	(20)	0	270-290	270-290	Clamp down on illegal sand mining has led to slow down in construction activities.
	Jaipur	295	280	275	(20)	(5)	235-250	230-245	Muted demand scenario due to continuance of sand mining issue has led to pricing pressure.

Southern region: Gearing for sharp price hike in April 2018

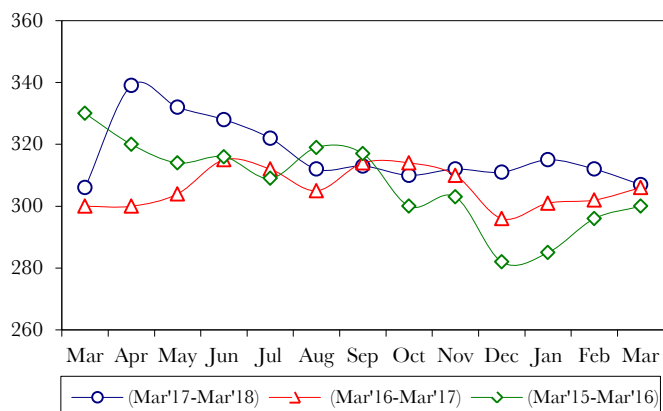
Region	Location	Monthly price (Rs/bag)			YoY	MoM	Non-trade prices (Rs/bag)		Comments
		Mar 17	Feb 18	Mar 18	(Rs/bag)		Feb 18	Mar 18	
South	Kochi	380	370	380	0	10	310-330	315-335	Kochi has witnessed gradual increase in prices during last few months as compared to other southern pockets where prices have fallen.
	Chennai	370	335	320	(50)	(15)	265-290	250-270	Prices have declined further by Rs 15-20/bag and currently hovering around four years low.
	Bengaluru	360	330	320	(40)	(10)	245-270	235-265	Another price cut of Rs 10/bag has been witnessed during the current month.
	Hyderabad	300	300	290	(10)	(10)	220-245	215-235	Cement prices are expected to bounce back sharply by Rs 50-60/bag in the coming month.

Western region: Gujarat remains stable; Maharashtra prices weaken

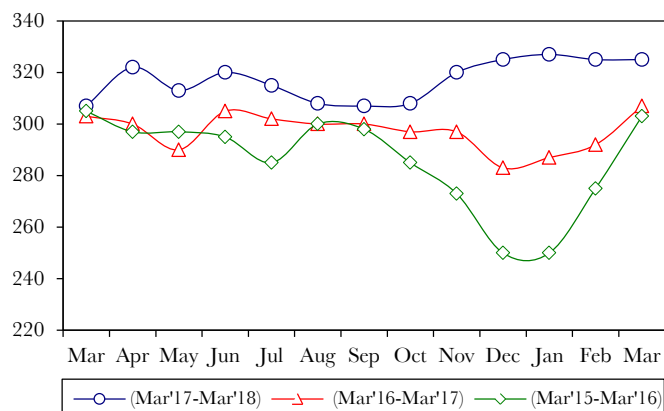
Region	Location	Monthly price (Rs/bag)			YoY	MoM	Non-trade prices (Rs/bag)		Comments
		Mar 17	Feb 18	Mar 18	(Rs/bag)		Feb 18	Mar 18	
West	Mumbai	320	320	315	(5)	(5)	260-280	260-280	Post two consecutive price cuts during February-March 2018, an increase of Rs 10-15/bag is expected in the coming month.
	Nasik	285	265	260	(25)	(5)	230-250	220-230	Cement prices continue to remain under pressure; however, price hike of Rs 20-30/bag is expected in the coming month.
	Nagpur	290	270	265	(25)	(5)	240-250	230-240	Though demand has been good, prices have failed to move up from previous month's level.
	Ahmedabad	245	310	305	60	(5)	250-270	230-250	Price gap between trade and non-trade segment has widened during the current month.
	Rajkot/ Surat	250	310	310	60	0	250-270	250-260	Non-trade prices have declined marginally by Rs 5/bag; however, retail prices continue to remain steady on MoM basis.

Retail cement pricing trend (Rs/bag)

Average pricing trend in India

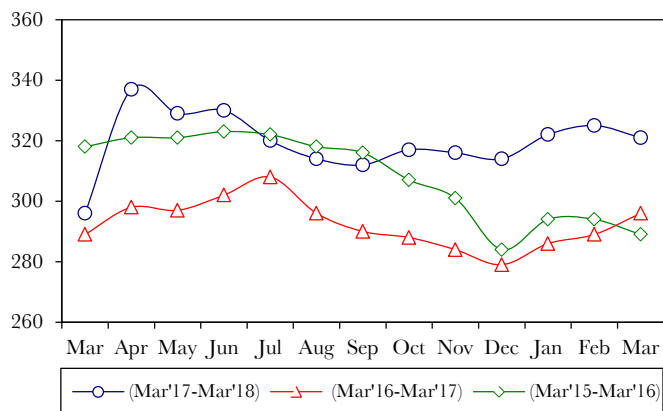


Average pricing trend in central region

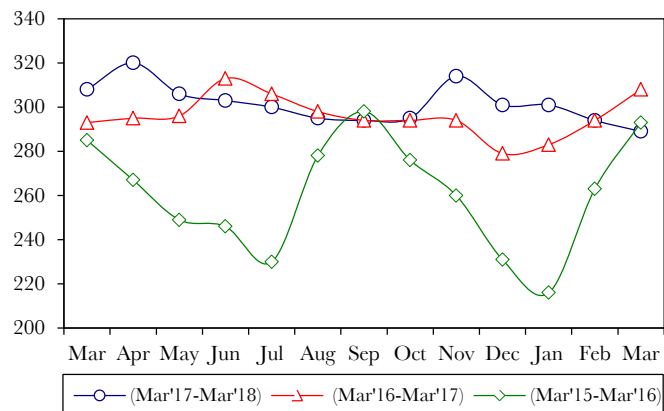


Source: B&K Research

Average pricing trend in eastern region

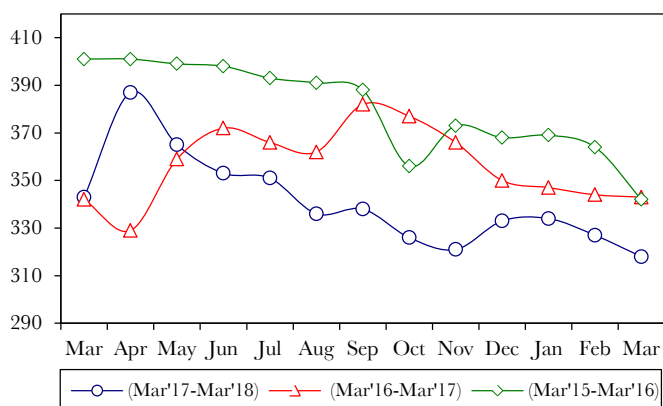


Average pricing trend in northern region

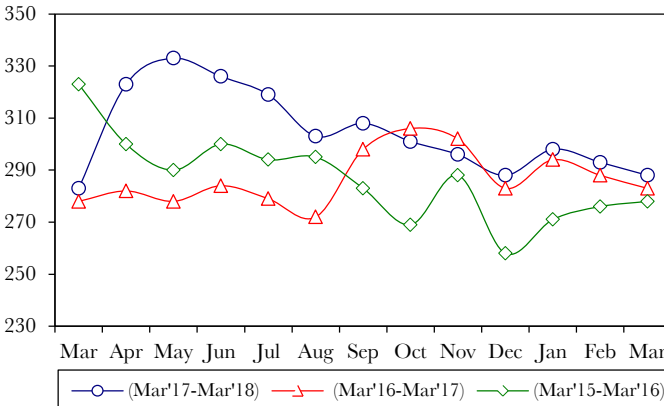


Source: B&K Research

Average pricing trend in southern region



Average pricing trend in western region



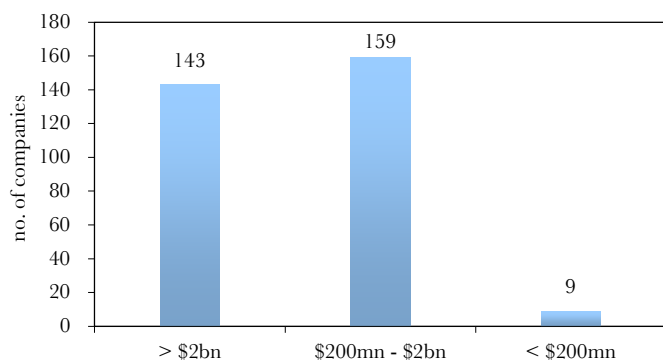
Source: B&K Research

Amit Srivastava
Research Analyst
amit.srivastava@bksec.com
+91-22-4031 7168

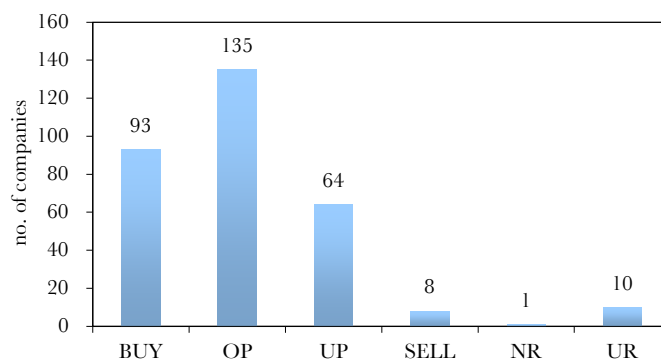
Saurabh Mitra
Research Analyst
saurabh.mitra@bksec.com
+91-22-4031 7122

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By Recommendation



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OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
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