

CEMENT

30 August 2024

Prices under pressure; demand relatively steady in monsoon

- Cement prices in Aug'24 fell by 9% YoY but were steady MoM as the monsoon continues to grip many regions
- Gap between trade and non-trade prices widens past Rs 50/bag indicating weak demand from the infrastructure segment
- Price hikes may be underway with Rs 20/bag from September, but small bouts of hikes likely to be absorbed easier than sharp big reversals

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Prices weaken as monsoon intensifies: All India cement prices in Aug'24 were ~9% lower YoY (down 1% MoM) at Rs 322/bag compared to Rs 353/bag in Aug'23 (Rs 326/bag in Jul'24). According to our channel checks, MoM prices stayed range-bound with a negative bias as prices began to fall in Jul'24 when the monsoon started across the country.

Non-trade segment more vibrant; prices in trade segment stay listless: Cement prices in the trade segment continued to be listless. However, the gap between trade and non-trade prices widened (more than the normal Rs 30-40/bag) and touched ~Rs 80/bag in some regions of India. Prices weakened by Rs 20/bag in the non-trade segment, going as low as Rs 220-230/bag in pockets of eastern and southern India. However, volumes stayed tepid in the trade segment, but were more vibrant in the non-trade segment. The overall demand remained dull due to weak construction activity and lack of rural support to agri-related work which is in full swing.

South India the biggest loser YoY: Cement prices weakened the most in the South with a 13% fall YoY (flat MoM), while East and West fell by ~9% each and North and Central India by 5%/6% each. Prices in Western and Central India fell MoM too by 1-2%. However, demand was steady in the southern region, indicating lower prices were luring demand, while activity was very slow in western and eastern India largely due to the monsoon. This indicates that the price reversal will be faster in the southern region while pickup will be steady in eastern India.

Price hikes on the cards, but meaningful reversal only post monsoon: Early indications from our channel checks (23 across the country) indicate that prices will be hiked in the trade and non-trade segment in an average range of ~Rs 20/bag. However, sustainability will be key to maintaining higher prices due to continued wet season and heavy supply pressure especially from market leaders.

No change in stance: We retain our BUY rating on UTCCEM, and retain our HOLD ratings on JKCE and ACEM with a positive bias. There is no change in our negative stance on TRCL, JKLC and ORCMNT and we maintain our SELL rating.

Recommendation snapshot

Ticker	Price	Target	Rating
ACC IN	2,329	2,569	HOLD
ACEM IN	617	667	HOLD
DALBHARA IN	1,891	2,062	HOLD
JKCE IN	4,454	4,431	HOLD
JKLC IN	788	687	SELL
ORCMNT IN	305	177	SELL
SRCM IN	25,482	25,403	HOLD
TRCL IN	831	737	SELL
UTCCEM IN	11,302	12,972	BUY

Price & Target in Rupees | Price as of 30 Aug 2024



Fig 1 – Price weakness persists; some respite MoM

Region	Aug'24	Jul'24	Aug'23	3MMA YoY Change (%)	3MMA QoQ Change (%)
East	305	306	334	(9.3)	(2.7)
West	336	342	370	(8.7)	(1.8)
North	333	339	350	(3.4)	(0.3)
Central	329	336	351	(7.1)	(1.8)
South	307	305	352	(11.9)	(7.3)
All India	322	326	353	(8.5)	(3.0)

Source: Companies, BOBCAPS Research

Fig 2 – Monthly price movements across cities (Rs/bag)

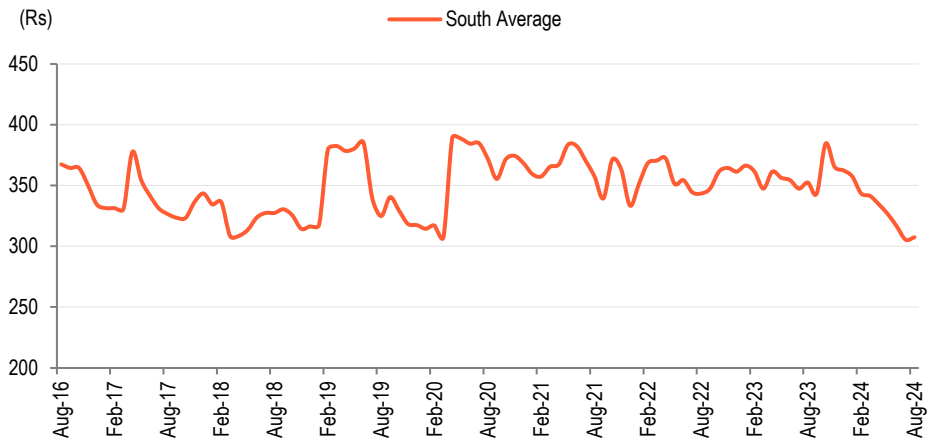
Region / City	Aug'24	Jul'24	Aug'23	YoY Change (%)	MoM change (%)
West	336	342	370	(9.2)	(1.7)
Mumbai	360	370	380	(5.3)	(2.7)
Ahmedabad	360	370	420	(14.3)	(2.7)
Surat	310	320	370	(16.2)	(3.1)
Nagpur	335	335	350	(4.3)	-
Pune	330	330	355	(7.0)	-
Nashik	320	325	345	(7.2)	(1.5)
East	305	306	334	(8.6)	(0.4)
Kolkata	300	280	345	(13.0)	7.1
Raipur	280	290	300	(6.7)	(3.4)
Bhubaneswar	360	365	350	2.9	(1.4)
Patna	280	290	340	(17.6)	(3.4)
South	307	305	352	(12.8)	0.7
Chennai	290	270	325	(10.8)	7.4
Hyderabad	300	310	340	(11.8)	(3.2)
Bangalore	330	330	380	(13.2)	-
Vishakhapatnam	307	317	347	(11.5)	(3.2)
Kochi	310	300	370	(16.2)	3.3
North	333	339	350	(4.8)	(1.7)
Delhi	325	325	350	(7.1)	-
Jaipur	305	312	340	(10.3)	(2.2)
Punjab	370	380	360	2.8	(2.6)
Central	329	336	351	(6.4)	(2.2)
East Uttar Pradesh	360	360	360	-	-
West Uttar Pradesh	320	340	370	(13.5)	(5.9)
Indore	320	325	340	(5.9)	(1.5)
Bhopal	315	320	335	(6.0)	(1.6)
All India	322	326	353	(8.5)	(3.0)

Source: Companies, BOBCAPS Research

Demand remained steady in Tamil Nadu; with the onset of monsoon demand in Andhra Pradesh/Telangana and Kerala was impacted: Cement prices fell the fastest in the southern region of India YoY but were steady MoM indicating prices may have reached the bottom in the region. Our channel checks indicated overall demand in Tamil Nadu was steady which helped to reverse prices by Rs 20/bag MoM to Rs 390, and another equivalent hike is expected next month. In Bengaluru prices were hiked by

Rs 20/bag in the non-trade segment due to an acute supply shortage during the month. The recent consolidation – Adani Cement acquiring Penna Cement and India Cements changing hands with UltraTech Cement – has not yet had any impact on cement supply in the region. However, there were indications that Penna Cement will be available in the new avatar in the near term. Prices in South India reversed MoM, backed by relatively steady demand.

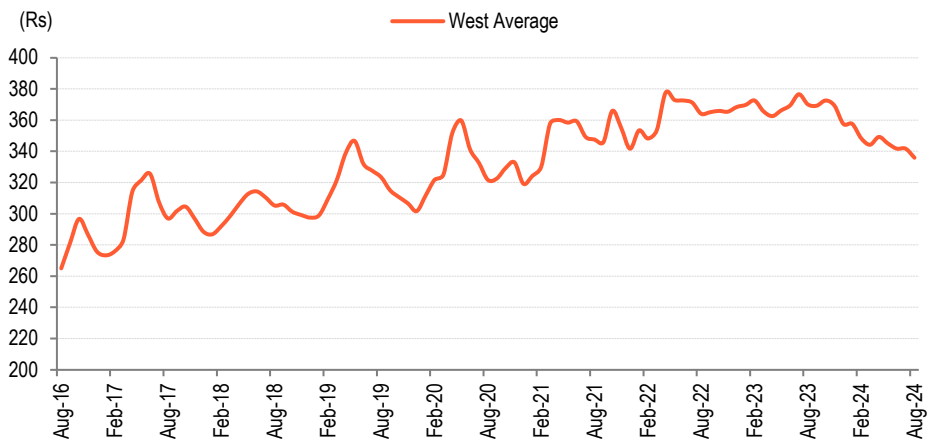
Fig 3 – Price in South India reversed MoM, backed by relatively steady demand



Source: BOBCAPS Research

Western India a mixed bag – demand steady in Mumbai, Gujarat gripped by monsoon: The onset of the monsoon in Gujarat slowed construction-related activities in the state (key cities include Ahmedabad and Surat), though demand was relatively better in Ahmedabad compared to southern Gujarat. Cement-related activity in South Gujarat was severely hampered (indicative slippage of ~25-30% MoM in demand) largely due to heavy rains in the region. Supply was largely from cement companies with grinding units in Gujarat including JKLC and JKCE. In Mumbai, construction activity was slow, however competition between market leaders kept the prices under pressure. Price hikes of Rs 20/bag from 1 Sep were announced but will depend largely on demand revival.

Fig 4 – Monsoon grips western India impacting prices

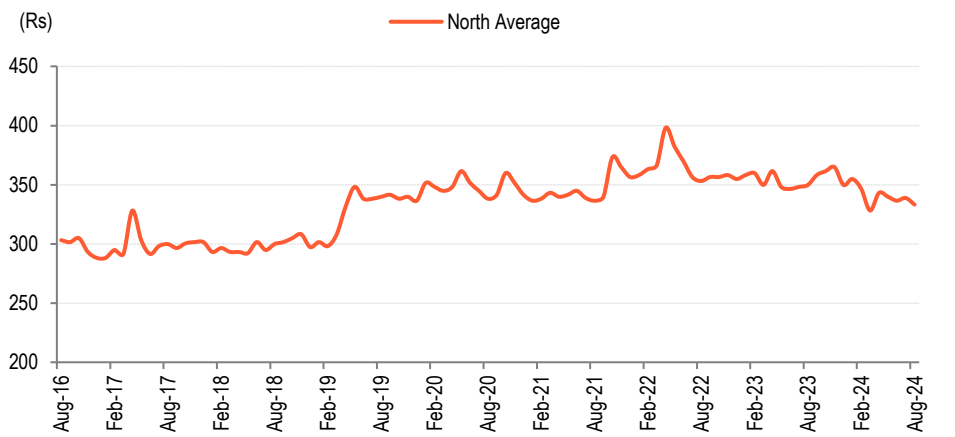


Source: BOBCAPS Research

Non-trade price gap for cement broadens in North India

Demand for cement in North India was a mixed bag with Rajasthan receiving very heavy rains and demand waning by nearly 25-30% MoM. Although trade prices were largely listless, non-trade fell by Rs 20-30/bag leading to a widening gap between trade and non-trade prices in the region. In Punjab, demand was steady but temporarily weak due to the monsoon but certain new brands like Wonder and Mycem Cement were strong in supply. In Rajasthan non-trade prices stayed at ~Rs 240-250/bag while in Punjab the same were at Rs 270-280. Prices are likely to be hiked over the next few days in both the states.

Fig 5 – Non-trade prices take a hit in North India

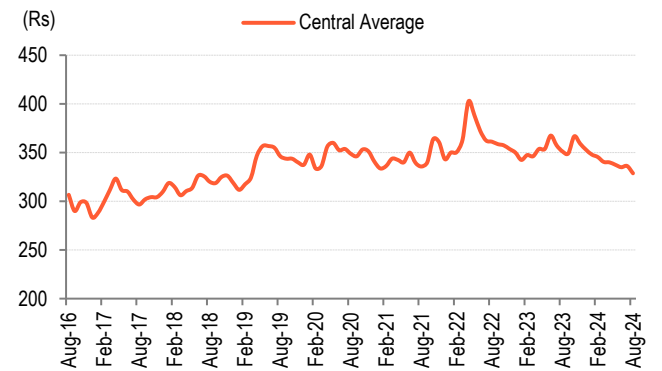


Source: BOBCAPS Research

Demand from Eastern India impacted by monsoon; Central India stays listless

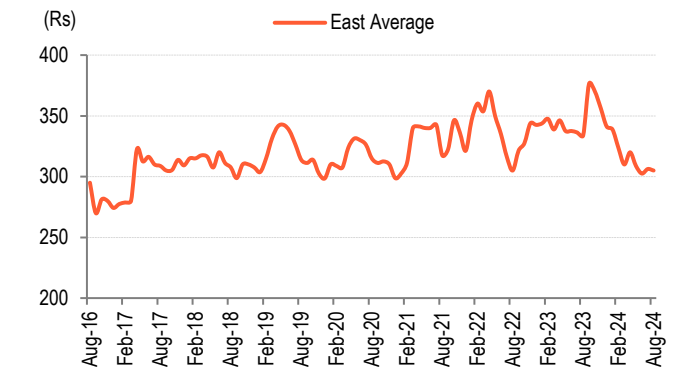
In Central India, demand from the Indore and Bhopal markets was weak forcing prices lower, while in eastern Uttar Pradesh demand was steady but impacted by the monsoon. This indicates recovery in prices as demand support comes back post monsoon. Prices in few pockets were reversed by Rs 10/bag MoM. In the eastern region expectations of healthy demand in Bihar were strong due to a steep increase in budget allocations. In Chhattisgarh demand was steady at sub-Rs 300/bag of cement prices, but the demand was weak. JSW Cement is likely to commission its grinding unit in the near term, further increasing supply in the region.

Fig 6 – Demand in Central India weakens; price fall continues



Source: BOBCAPS Research

Fig 7 – Hoping for healthy reversal in demand in East India; supply equally strong adding to pricing concerns



Source: BOBCAPS Research

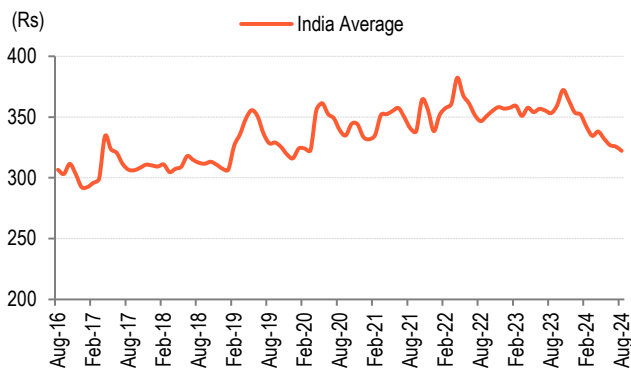
Outlook

Our channel check feedback suggests that the demand is on average weak by ~10-20% across regions. However, this was only due to the monsoon and we believe activity will pick up once the monsoon recedes. This is a positive for the cement sector as 2HFY24 demand is likely to reverse with the recovery slightly better than we estimated. This is due to above-normal monsoon, recovery in rural demand and steady policy framework following the re-election of the government.

We believe with the expected demand pickup, the gap between the trade and non-trade segments will narrow with non-trade prices being hiked and trade prices staying steady. As the full budget allocations and funds are further passed on to the states the demand momentum will gather pace further. Following the festive season, the demand momentum is likely to continue into Q4 to meet the year-end completion deadlines.

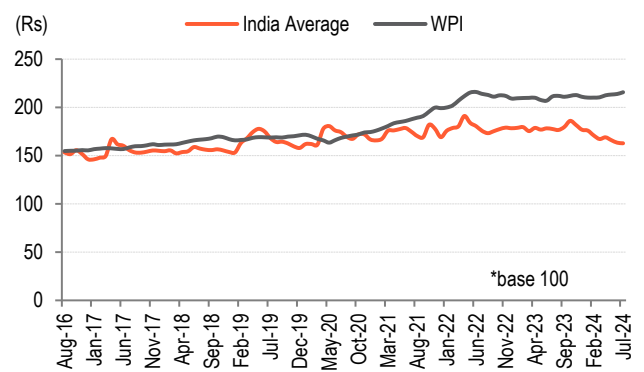
However, with heavy supply across regions and new capacities expected to be commissioned prices may stay listless. Our feedback from channels suggest the overall demand-supply imbalance only indicates price hikes in small bouts will be well accepted though sharp reversals with bigger hikes may face resistance. Collectively, this would imply that the earnings for our coverage cement companies will improve relatively in 2HFY25.

Fig 8 – All India cement prices stay weak with limited signs of sharp reversal



Source: BOBCAPS Research

Fig 9 – Cement prices lag pace with overall inflation, only leaving space for prices reversing upwards



Source: Office of Economic Advisor, GOI, BOBCAPS Research

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Note: Recommendation structure changed with effect from 21 June 2021

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