Cemtake Monthly

09 October 2015

Weakness in pricing...!!!

We interacted with cement dealers and marketing persons of various companies across regions to get perspective on pricing trend and demand scenario.

Key highlights of our interactions

Price volatility in western region continued...

Some crack in price discipline in southern region...

Northern region: Another strong month in terms of pricing...

Demand trend continued to be sluggish...

- During the month of September, prices remained under pressure across the regions (except north) primarily due to subdued demand (being monsoon and 'shradh' month) and higher competition among producers. October month has started on a flattish note as prices in most of the regions are expected to remain range bound considering weak demand (impact of upcoming festive season).
- All India average prices remained range bound (fluctuating between ± Rs 10/bag) during 1HFY16 (April-September 2015).
- Price trend for the month was - **Northern region up Rs 20/bag, western region down Rs 12/bag, southern region down Rs 3/bag whereas central and eastern region down Rs 2/bag.**
- Northern region maintained its strong performance during the month of September with another price hike of Rs 20/bag. However, dealers have given indication of some roll back of price hike during the month.
- Western region has continued to witness volatility in prices (higher during first half of the month and then come off during second half of the month) due to weak demand, lack of discipline among producers and flow of cement from other regions.
- After a sharp hike of Rs 15/bag, prices in central region declined marginally by Rs 2/bag during the month of September.
- Cement industry reported improvement in production growth to 5.4% during the month of August 2015. However, industry participants given indication of weak production growth for the month of September. We believe industry growth would be ~2.5% for 2QFY16.

Outlook and valuation

Subdued pricing trend along with weak demand in most of the pockets continued to be major challenges for the cement players. Though we are structurally positive, remain cautious in near term considering delay in pick-up in demand, volatile pricing and region specific issues. We expect demand would report some improvement in the coming months but it would be gradual. Hence, we would be selective buyer in the sector and prefer UltraTech Cement in large cap, The Ramco Cements in mid cap and Sagar Cements in small cap.

Valuation matrix

	CMP	Rating	EV/EBITDA (x)		EV/tonne (US$)		PER (x)		RoE (%)		RoCE (%)	
	(Rs)		FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
ACC*	1,356	OP	14.1	10.2	116	109	27.6	20.3	11.1	14.6	14.2	19.2
Ambuja Cements*	210	UP	15.5	10.8	153	148	29.6	21.2	10.8	14.6	15.3	20.4
UltraTech Cement	2,818	BUY	14.8	10.9	208	190	27.4	18.8	14.4	19.1	14.4	18.8
Shree Cement**	12,398	UP	23.6	15.6	281	259	60.6	31.2	12.8	21.2	14.1	22.3
India Cements	79	OP	5.8	4.5	63	56	15.4	7.3	4.5	8.9	8.9	11.8
The Ramco Cements	342	BUY	10.4	8.3	107	103	22.0	16.0	13.9	17.8	11.4	14.9
Birla Corporation	448	OP	12.7	8.2	57	55	22.2	13.3	5.9	9.3	6.6	9.5
HeidelbergCement India	79	OP	9.5	6.0	81	78	25.7	10.2	7.8	17.2	8.8	15.5
Sagar Cements	395	BUY	5.3	3.8	42	38	8.3	6.3	14.6	16.0	5.9	15.9
Prism Cements#	92	BUY	12.1	7.5	76	55	39.2	12.9	10.6	26.5	6.6	12.1

*Year end December. **Year end June. #EV/tonne adjusted for TBK and RMC. OP – Outperformer, UP – Underperformer

Quarterly preview

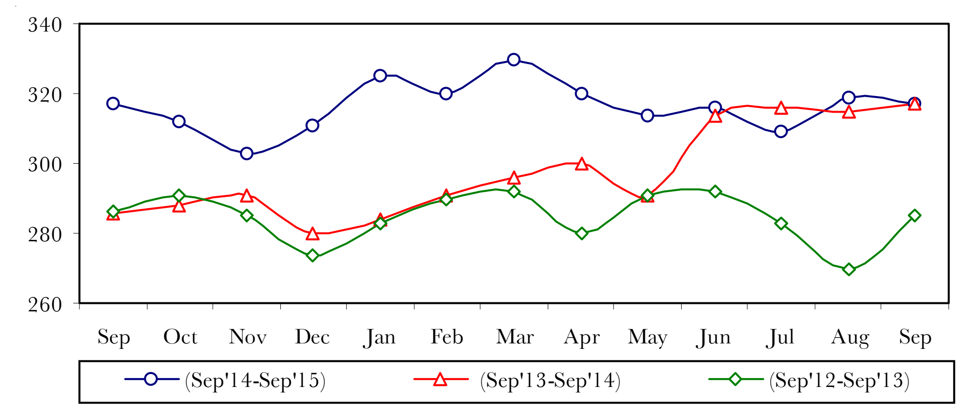
	Net Sales (Rs mn)					EBITDA (Rs mn)				
	Jun'15	Sep'15E	Sep'14	QoQ (%)	YoY (%)	Jun'15	Sep'15E	Sep'14	QoQ (%)	YoY (%)
ACC	29,612	27,940	27,419	(5.6)	1.9	3,335	2,935	3,786	(12.0)	(22.5)
Ambuja Cements	24,928	20,356	21,876	(18.3)	(6.9)	3,838	2,860	3,934	(25.5)	(27.3)
UltraTech Cement	60,382	54,235	53,818	(10.2)	0.8	11,519	9,438	8,770	(18.1)	7.6
Shree Cement	17,246	16,884	16,081	(2.1)	5.0	3,568	3,519	3,404	(1.4)	3.4
India Cements	10,710	10,620	11,317	(0.8)	(6.2)	1,994	1,914	1,832	(4.0)	4.5
The Ramco Cements	9,225	9,210	9,221	(0.2)	(0.1)	2,514	2,356	2,163	(6.3)	8.9
Birla Corporation	7,735	7,669	7,671	(0.9)	(0.0)	579	533	720	(7.9)	(26.0)
HeidelbergCement India	4,318	4,086	4,000	(5.4)	2.2	517	481	564	(7.1)	(14.8)
Prism Cement	13,659	13,450	13,320	(1.5)	1.0	810	716	462	(11.7)	54.9
Sagar Cements	1,947	1,795	1,252	(7.8)	43.3	382	195	88	(49.0)	122.7
	Sales volume (mt)					**EBITDA (Rs/tonne)***				
	Jun'15	Sep'15E	Sep'14	QoQ (%)	YoY (%)	Jun'15	Sep'15E	Sep'14	QoQ (%)	YoY (%)
ACC	6.20	5.84	5.62	(5.7)	4.0	451	401	544	(11.0)	(26.3)
Ambuja Cements	5.95	4.76	4.67	(19.9)	2.0	615	558	811	(9.3)	(31.2)
UltraTech Cement	12.41	11.20	10.65	(9.7)	5.2	881	788	779	(10.5)	1.2
Shree Cement	4.35	4.20	3.88	(3.3)	8.3	683	725	824	6.1	(12.1)
India Cements	2.10	2.10	2.34	0.0	(10.4)	883	826	653	(6.4)	26.5
The Ramco Cements	1.81	1.81	1.95	(0.2)	(6.9)	1,230	1,161	961	(5.6)	20.8
Birla Corporation	1.96	1.90	1.91	(2.9)	(0.6)	224	210	303	(6.2)	(30.6)
HeidelbergCement India	1.18	1.10	1.04	(6.8)	5.8	378	373	483	(1.5)	(22.9)
Prism Cement	1.36	1.30	1.34	(4.4)	(3.0)	507	469	261	(7.4)	79.7
Sagar Cements	0.47	0.45	0.33	(4.0)	36.5	814	433	265	(46.9)	63.1

*Excluding other operating income

Average pan India trade price down by Rs 2/bag (MoM)

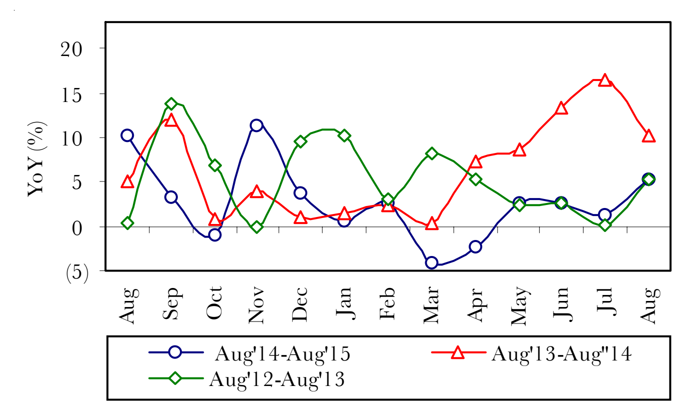
- After a sharp recovery in the month of August, prices declined marginally by Rs 2/bag to Rs 317 in the month of September primarily due to subdued prices across the regions (except north).
- September has witnessed sluggish demand across regions. Southern region continued to de-grow owing to limited participation of institutional segment.
- As per market participants, healthy demand growth and upward movement of prices may be expected post festival season primarily driven by traction in infrastructure execution and housing activity in tier II or III cities.

Average pricing trend in India (Rs/bag)

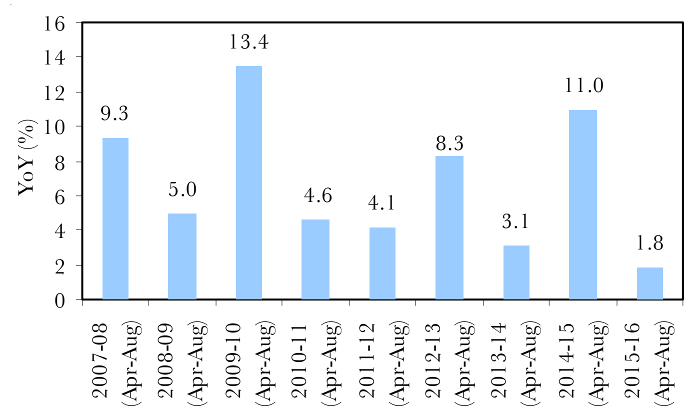


Source: B&K Research

Monthly cement production growth trend



YTD production growth trend



Source: IIP Data, B&K Research

Regional trend

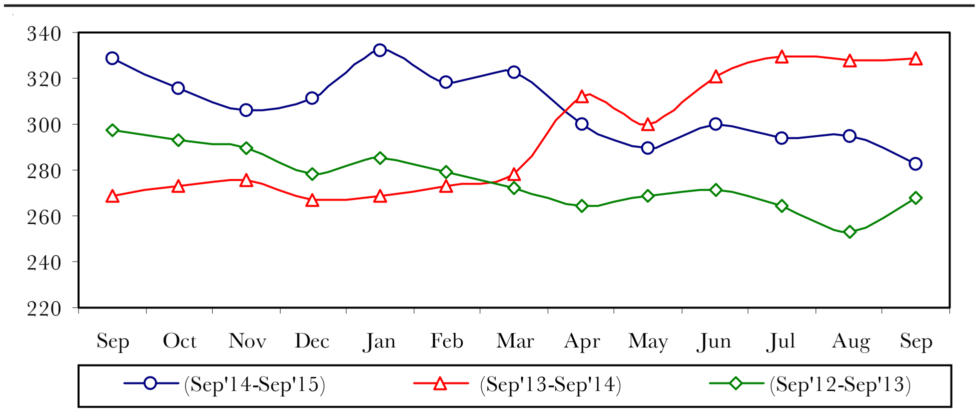
Western region: Sharp decline in prices

- Prices in western region continued to remain under pressure due to lower than expected demand and competitive pricing. Overall, average price at the end of the month was down by Rs 12/bag to Rs 283.
- Prices across the pockets of the region were down (except Surat). Prices in Surat were up by Rs 20/bag. Nasik came down by Rs 30/bag whereas Mumbai and Pune gone down by Rs 25/bag. Nagpur and Ahmedabad were down by Rs 10/bag and Rs 5/bag, respectively.
- Most of the pockets of the region have witnessed price hike of Rs 10-15/bag in the beginning of the October but is expected to come down in second half of the month considering peak of festive season.

Western region

Region	Location	Monthly price (Rs/bag)			YoY	MoM	Non-trade prices (Rs/bag)		Comments
		Sep 14	Aug 15	Sep 15	(Rs/bag)		Aug 15	Sep 15	
West	Mumbai	330	330	305	(25)	(25)	272-305	248-290	Price hike of Rs 10/bag is expected in the beginning of the month, however, price volatility would remain a key concern.
	Nasik	328	295	265	(63)	(30)	240-256	225-235	Recent sharp decline in prices has come as a negative surprise despite stable demand scenario.
	Nagpur	325	290	280	(45)	(10)	245-255	232-248	Gradual recovery in demand is expected going ahead backed by higher participation of institutional segment.
	Ahmedabad	320	285	280	(40)	(5)	245-265	245-265	Demand remained stable for the last two months, however, upcoming festive season may put some pressure on the demand growth.
	Rajkot/Surat	330	270	290	(40)	20	228-240	245-258	Prices are expected to remain at current level.

Average pricing trend in western region (Rs/bag)



Source: B&K Research

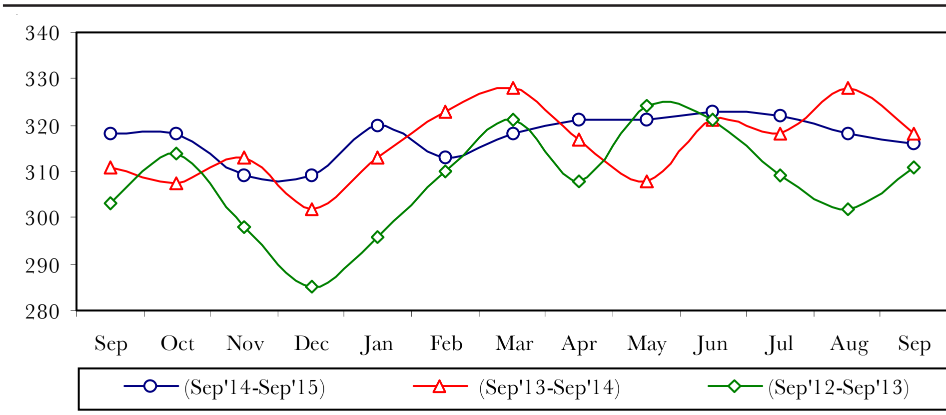
Eastern region: Moderate demand with subdued pricing…

- Eastern region continued its downward trend in pricing, however; it has prevented any sharp decline in prices on the back of healthy demand scenario as compared to other regions.
- Prices in eastern region were down by Rs 2/bag to Rs 316 primarily due to price cut in Kolkata and Raipur. Prices in Raipur were down by Rs 12/bag whereas Kolkata was down by Rs 5/bag. Prices in Ranchi and Orissa remained flat at Rs 330/bag and Rs 310/bag. Prices in Bihar were up by Rs 8/bag.
- As per market intermediaries, demand in most of the parts of the region is primarily driven by higher participation of retail segment. Orissa dealers indicated about traction in affordable housing, as government funding is being provided to poor people to build Pucca house. However, slower pace of execution of institutional projects, delay in payment for government works, upcoming election in Bihar were major causes for limited demand growth in the region in the last couple of months.

Eastern region

Region	Location	Monthly price (Rs/bag)			YoY	MoM	Non-trade prices (Rs/bag)		Comments
		Sep 14	Aug 15	Sep 15	(Rs/bag)		Aug 15	Sep 15	
East	Raipur	270	262	250	(20)	(12)	220-230	205-228	Subdued demand coupled with presence of several players have negatively affected the prices.
	Ranchi	325	330	330	5	0	275-290	275-290	Demand remained stable during the month led by healthy participation of retail segment.
	Patna	305	322	330	25	8	240-260	240-260	Demand and prices may come under pressure in near term considering upcoming election in the state.
	Kolkata	365	365	360	(5)	(5)	275-295	275-295	Prices continued to go down due to muted government participation and real estate activities.

Average pricing trend in eastern region (Rs/bag)



Source: B&K Research

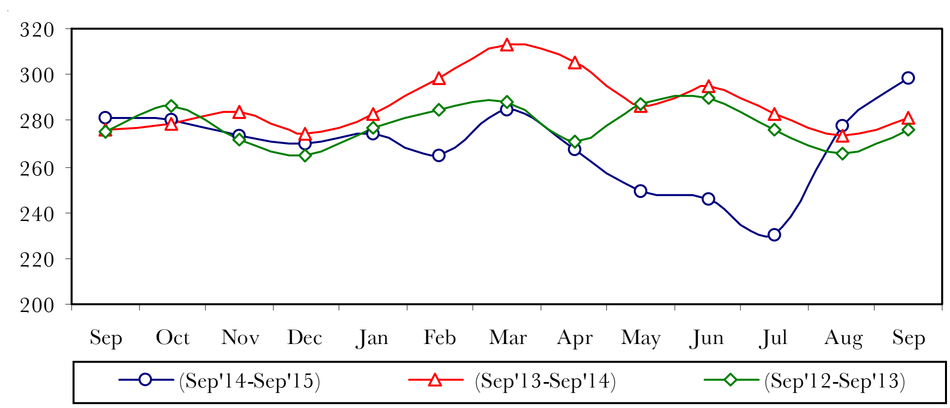
Northern region: Another strong month in terms of pricing

- Prices remained firm in the region and moved up by Rs 20/bag to Rs 298 primarily driven by sharp increase in prices across the pockets.
- Prices in Punjab and Jaipur were up by Rs 25/bag whereas Udaipur and Delhi were up by Rs 20/bag and Rs 10/bag, respectively.
- As per market experts, demand is expected to witness some pressure due to beginning of festive season; however, December onwards pick-up in demand can be expected in most of the pockets.
- Most of the pockets have seen pressure on pricing with a price cut of Rs 5-10/bag in the beginning of October; however, dealers of Punjab have indicated about price hike of ~Rs 15/bag. As per market participants, demand and prices are expected to remain range bound in near term.

Northern region

Region	Location	Monthly price (Rs/bag)			YoY	MoM	Non-trade prices (Rs/bag)		Comments
		Sep 14	Aug 15	Sep 15	(Rs/bag)		Aug 15	Sep 15	
North	Delhi	290	285	295	5	10	230-245	235-250	Prices are expected to witness some pressure due to competitive market and lower than expected demand.
	Punjab	285	280	305	20	25	230-242	242-269	October month has started on a positive note with another price hike of Rs 15/bag.
	Jaipur	270	275	300	30	25	225-240	240-258	Prices have gone up sharply in the last two months on the back of production discipline being maintained by the cement players of the region.

Average pricing trend in northern region (Rs/bag)



Source: B&K Research

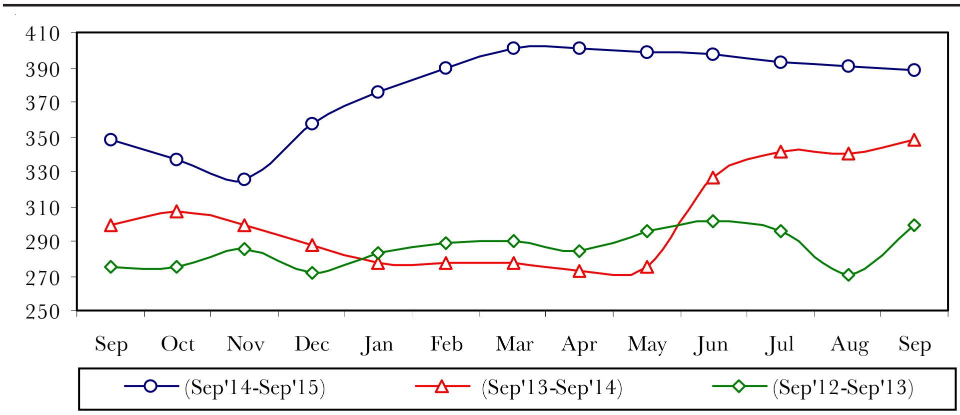
Southern region: Marginal decline in prices...

- Average prices came down marginally by Rs 3/bag to Rs 388 in the month of September 2015. Prices in Chennai, Kochi and Vizag were down by Rs 5/bag whereas Bengaluru and Hyderabad remained flat MoM basis.
- Andhra Pradesh and Telangana have seen some pressure in the beginning of the October where prices have come down by Rs 10-15/bag due to weak discipline.
- Most of the south-based players are expected to report de-growth in sales volume during 2QFY16 as demand continued to remain sluggish across the pockets of the region. As per market participants, any meaningful recovery in demand can be expected post 3QFY16 primarily driven by beginning of infrastructure activities in new capital of Andhra Pradesh.

Southern region

Region	Location	Monthly price (Rs/bag)			YoY	MoM	Non-trade prices (Rs/bag)		Comments
		Sep 14	Aug 15	Sep 15	(Rs/bag)		Aug 15	Sep 15	
South	Kochi	385	420	415	30	(5)	350-360	345-360	Despite weak demand scenario prices are at higher level.
	Chennai	335	400	395	60	(5)	320-340	320-340	Marginal decline in prices to boost demand.
	Bengaluru	390	407	407	17	0	340-360	340-360	Demand and prices are stable.
	Hyderabad	310	340	340	30	0	270-285	270-285	Delay in pickup in demand is a concern which needs to be addressed for maintaining prices at current level.

Average pricing trend in southern region (Rs/bag)



Source: B&K Research

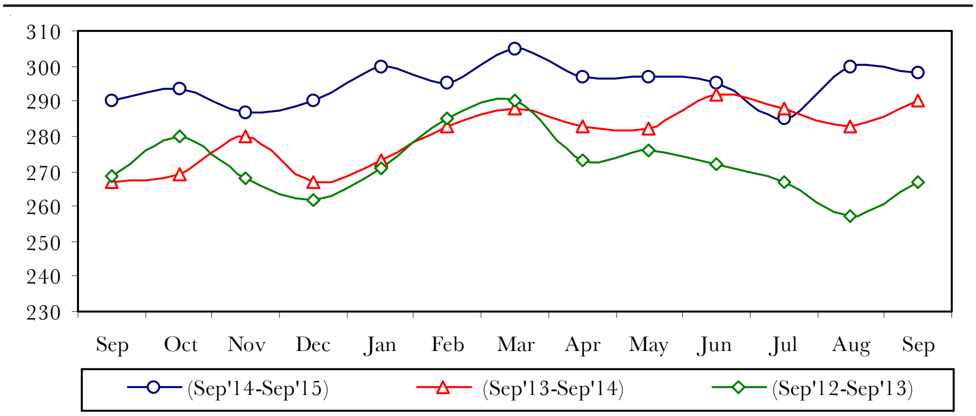
Central region: Prices remained range bound

- Average prices were marginally down by Rs 2/bag on account of weak prices in Madhya Pradesh.
- Prices in Madhya Pradesh came down by Rs 15/bag; however, negative effect of the same was mostly offset by western Uttar Pradesh where prices gone up by Rs 10/bag. Prices in eastern Uttar Pradesh remained flat at Rs 320/bag.
- As per market intermediaries, demand remained stable in most parts of the region; however, near term demand and pricing outlook remains cautious considering beginning of festive season, lower rural spending (as a result of weak monsoon) and absence of any major positive triggers.
- October month is expected to remain sluggish in terms of demand and most of the market participants indicated about price cut in the range of Rs 5-10/bag across the pockets of the region.

Central region

Region	Location	Monthly price (Rs/bag)			YoY	MoM	Non-trade prices (Rs/bag)		Comments
		Sep 14	Aug 15	Sep 15	(Rs/bag)		Aug 15	Sep 15	
Central	Kanpur	295	320	320	25	0	240-250	240-250	Demand and prices remained flat during the month.
	Bhopal/Indore	285	285	270	(15)	(15)	215-230	210-220	Demand is expected to remain under pressure due to muted rural spending.

Average pricing trend in central region (Rs/bag)



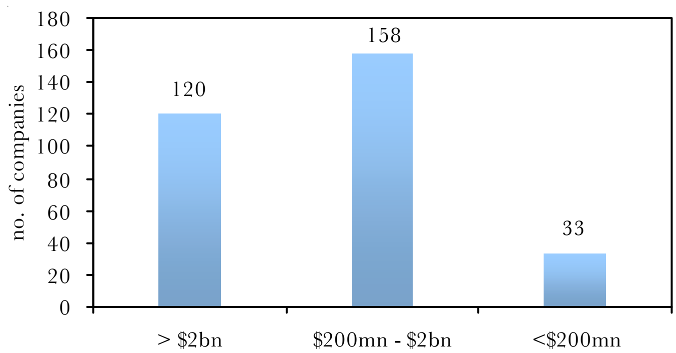
Source: B&K Research

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

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

B&K Universe Profile

By Market Cap (US$ mn)



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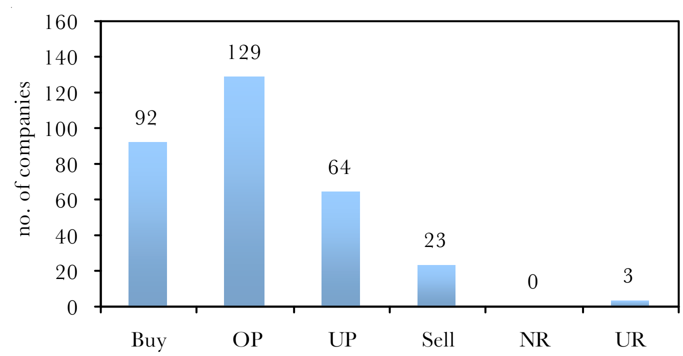

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OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
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Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.

Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.