

CEMENT

31 October 2024

Lull continues, prices listless; 2H demand green shoots in sight

- Cement prices in Sep'24 fell by 12% YoY but stayed flat MoM as the monsoon had a relatively extended spell
- Milind Raginwar research@bobcaps.in
- Non-trade prices weakened in many regions, though trade prices were listless, thus widening the gap between trade and non-trade prices
- Meaningful price hikes are likely only post the festival season (Diwali) on the back of genuine demand revival

Cement prices listless MoM as efforts to hike prices yield little success: All India cement prices in Oct'24 were ~12% lower YoY at Rs 327/bag compared to Rs 372/bag in Oct'23 (Rs 330/bag in Sep'24). Our channel checks indicate price hike attempts gained little success though tepid demand put pressure on the non-trade segment as prices weakened due to slack demand.

Non-trade segment a mixed bag; trade segment listless: Cement prices in the trade segment stayed listless and reverted after the initial jump in the earlier part of the month. However, the gap between trade and non-trade prices widened (from Rs 30/bag earlier) to ~Rs 50/bag in excess-supply regions like Chhattisgarh, Rajasthan and Telangana, while in other regions trade and non-trade prices converged as activity was very weak in the non-trade segment owing to price weakness. Prices fell by Rs 10-20/bag in the non-trade segment in excess-supply regions. Overall demand stayed dull due to an extended wet spell and the onset of festivals.

South and East India remain under pricing pressure: Cement prices fell the most in East and South India by 19%/20% YoY ahead of the All-India average decline of ~12%. The prices in the eastern region fell by 3% MoM too. This was followed by North and West that fell by ~7% each YoY. Central India fell by 6% YoY but was the only region to gain MoM albeit by 1%, thus remaining the best option. Demand was flat in many regions due to pre-festive buying but weakened in the second fortnight due to monsoon and labour drying up closer to the Diwali festival.

Demand reversal expected post festivities, aid prices: Our channel checks (23 across the country) indicate firmly that genuine price hikes in the trade and non-trade segment will be operational only post festivities (mid-November). The cement demand season can continue strongly till May 2025 as per early indications.

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





Fig 1 – Price weakness persists; some respite MoM (Rs/bag)

Region	Oct'24	Sep'24	Oct'23	3MMA YoY Change (%)	3MMA QoQ Change (%)
East	299	310	370	(15.4)	(0.4)
West	347	348	373	(7.3)	0.2
North	337	338	362	(5.8)	(0.7)
Central	345	341	367	(4.9)	0.6
South	307	308	384	(14.5)	(2.6)
All India	327	330	372	(9.8)	(0.6)

Source: Companies, BOBCAPS Research

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

Region / City	Oct'24	Sep'24	Oct'23	YoY Change (%)	MoM change (%)
West	347	348	373	(6.9)	(0.5)
Mumbai	370	385	390	(5.1)	(3.9)
Ahmedabad	360	360	410	(12.2)	-
Surat	330	320	370	(10.8)	3.1
Nagpur	350	345	370	(5.4)	1.4
Nashik	355	355	355	-	-
Pune	315	325	340	(7.4)	(3.1)
East	299	310	370	(19.3)	(3.6)
Kolkata	300	340	385	(22.1)	(11.8)
Raipur	285	280	325	(12.3)	1.8
Bhubaneshwar	360	350	400	(10.0)	2.9
Patna	250	270	370	(32.4)	(7.4)
South	307	308	384	(20.0)	(0.3)
Chennai	290	290	385	(24.7)	-
Hyderabad	290	290	380	(23.7)	-
Bangalore	325	335	380	(14.5)	(3.0)
Vishakhapatnam	297	297	387	(23.3)	-
Kochi	335	330	390	(14.1)	1.5
North	337	338	362	(6.9)	(0.5)
Delhi	320	320	365	(12.3)	-
Jaipur	320	320	340	(5.9)	-
Punjab	370	375	380	(2.6)	(1.3)
Central	345	341	367	(5.9)	1.1
East Uttar Pradesh	375	380	370	1.4	(1.3)
West Uttar Pradesh	350	350	380	(7.9)	-
Indore	330	320	360	(8.3)	3.1
Bhopal	325	315	357	(9.0)	3.2
All India	327	330	372	(12.1)	(0.7)

Source: Companies, BOBCAPS Research



Cement demand weakens in South India as monsoon grips Tamil Nadu;

Telangana under supply pressure: There was a double-digit (~20% YoY) fall in cement prices in the southern region, but was flat MoM as many regions saw no price changes. Our channel checks indicated price hikes in Tamil Nadu in the early part of the month only reversed to Rs 290, due to the monsoon that begins in October and extends till December in the region. In Hyderabad, prices in the trade segment fell below Rs 300/bag and trade and non-trade segment prices converged. The recent consolidation – Adani Cement acquiring Penna Cement – has started showing an impact, though marginal, with supply from ACC increasing in the region. In our view, the impact of India Cements changing hands with UltraTech Cement has yet to make a meaningful impact. However, in Kochi, Ambuja Cement is pushing volumes aggressively and there were early indications Hyderabad brands have stopped travelling to Kochi due to the unviable pricing scenario.

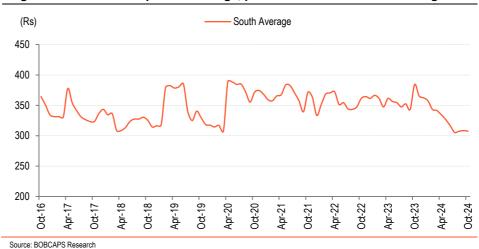


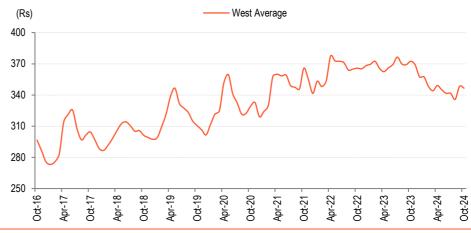
Fig 3 - Trade/non-trade prices converge, prices in TN fell below Rs 300/bag

Strike by construction material suppliers impact Gujarat; Maharashtra swings into state election mode: In Ahmedabad (Gujarat), trade prices stayed unchanged. Non-trade prices were hiked by Rs 30 in the first week of October. But the strike by construction material aggregators (crushed stone, etc) took a toll on demand. Prices were maintained despite there being only 10 days of meaningful activity in the month. Prices may stay firm post mid-November as labour starts resuming work post festivities.

In Mumbai (Maharashtra), price have softened by Rs 10-15/bag due to demand weakness in the trade segment, though non-trade prices were steady. There was no impact of excess supply either in Vidharbha or Mumbai region following Adani Cement's acquisition of Penna Cement. There are indications that demand and prices will only gain pace after the state elections by Dec'24. Genuine demand and pricing to gain strength following the festival season.



Fig 4 – Prices a mixed bag in West with Gujarat sustaining hikes and Maharashtra staying soft



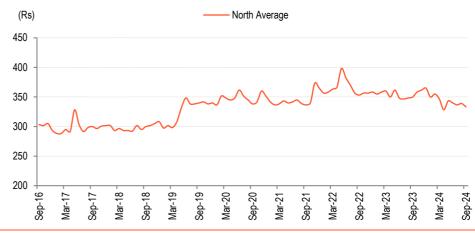
Source: BOBCAPS Research

Demand slackens, but prices remain largely listless in the northern region

Cement prices were a mixed bag in North India, largely unchanged MoM though demand in the region slackened. In Delhi, excess pollution has resurfaced and, hence, there could be restrictions on construction activity. In Punjab, the agitation phase has extended, hampering normalcy in the state and, thus, impacting prices of cement. The non-trade segment stayed weak and most of the activity was in the trade segment. Towards the end of the month, labour scarcity was acute thus dampening demand.

However, demand in Rajasthan was flat to positive (~5% MoM) and, hence, kept prices in the trade segment unchanged in the Rs 320/bag range. However, non-trade prices weakened from Rs 280/bag to Rs 260/bag thus widening the gap between trade and ontrade prices over the previous months.

Fig 5 - Trade prices listless in North India; non-trade prices weaken



Source: BOBCAPS Research



Eastern region under heavy supply pressure with sharpest price fall. Central India continues to be relatively better placed

In Kolkata, prices fell steeply in October as demand was weak. UTCEM was the only top brand which showed price consciousness. Non-trade prices remained at Rs 270-280/bag. However, other top brands are chasing market share at the cost of profits.

In Raipur, channel checks indicated category C brand cement is available for as low as Rs 235/bag in the trade segment (lowest in the country). Non-trade prices are at Rs 215-220/bag. Demand is weak and supply is in excess. Although only one brand has been hiking cement prices, other cement companies have supported it. According to our channel checks, price hikes of Rs 20/bag are expected post the festival season as price hikes lower than Rs 20/bag will be unviable.

In Central India, non-trade prices for the Indore and Bhopal regions stayed unchanged at Rs 280/bag. Attempts were made to raise prices, with limited success. Rural demand is weak and will be weaker due to the festival and wedding season and will reverse only post November.

Fig 6 – Central India remains a relatively better pricing region

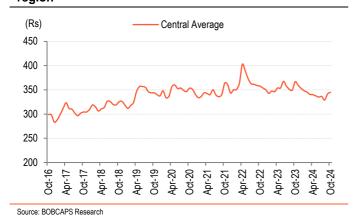
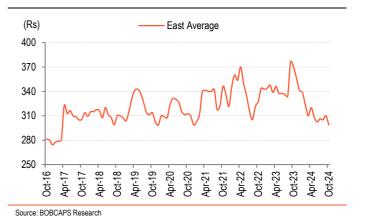


Fig 7 – Eastern region reels under supply pressure



Outlook

Our channel check feedback suggests that demand was largely flat or down by mid-single digit in the month of October across regions with demand falling by an extreme ~8-10% in pockets. However, the collective feedback by channels across regions was that the demand weakness was only due to the extended monsoon and labour scarcity due to the festival season and believe activity will pick up from the second fortnight of November. This is a positive for the cement sector as 2HFY25 demand is likely to reverse with the recovery slightly better than we estimated earlier. This is due to abovenormal monsoon, recovery in rural demand and steady policy framework following the re-election of the Central government. This is indicative as September cement demand was higher by 7% YoY as indicated by the core Industries data published by the Indian government.

As the full budget allocations and funds are further passed on to the states the demand momentum will gather pace. Following the festive season, the demand momentum is likely to continue into Q4 to meet year-end completion deadlines. This will narrow the



gap between the trade and non-trade segments with prices being hiked initially in the non-trade segment which is currently unviable in many regions. Trade prices are likely to stay range-bound.

However, with heavy supply of cement across regions and new capacities expected to be commissioned, prices may be hiked only in small bouts of Rs 5-10/bag to allow for the absorption of the hikes (in the trade segment). Collectively, this would imply that the earnings for our cement coverage will improve relatively in 2HFY25 and will offset the weak financial results in 2Q/2HFY25.

Fig 8 - All India cement prices stay range-bound MoM

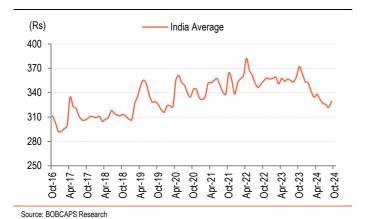
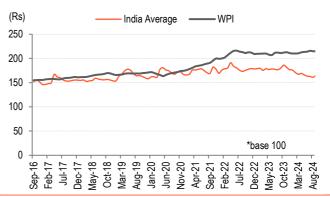


Fig 9 – Gap between cement prices and inflation widens, only leaving space for prices to reverse upwards



Source: Office of Economic Advisor, GOI, BOBCAPS Research



NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: BOB Capital Markets Limited

Registered office Address: 1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051

SEBI Research Analyst Registration No: INH000000040 valid till 03 February 2025

Brand Name: BOBCAPS

Trade Name: www.barodaetrade.com CIN: U65999MH1996GOI098009

Logo:



Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY - Expected return >+15%

HOLD - Expected return from -6% to +15%

SELL - Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.



Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd) ("MSL") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as "MAYBANK"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.