

Sector Update – Dealers' check

Mixed growth trends; Monsoon led seasonal price correction

Our pan-India channel checks indicate that cement sales fell sequentially across India during Aug/Sep amid good monsoon progression and also impacted by near term drags of GST & RERA. On YoY basis, Q2FY18 sales grew 10%+ in north/east/AP-Telangana regions and were flattish in western region. The central and southern regions demand marginally declined YoY as per industry estimates. Amid QoQ weak demand and GST benefit pass through, average pan India trade price fell 3%/2%/1% MoM during Jul/Aug/Sep. Adjusted for ~2-3% reduction in effective tax rate post GST, average trade prices during Q2FY18 is expected to decline 5%/3%/4%/1%/3% QoQ across north/central/east/west/south markets, leading to pan India price fall by 3% QoQ.

- **Mixed sales growth trend across India during Q2FY18:** During Aug and Sep 2017, sales moderated MoM driven by good monsoon across most parts of India, as per our interactions with cement dealers and marketing executives. Sales were also impacted due to near term drag of GST and RERA. However, on YoY basis, sales rose 10%+ during Q2FY18 in the northern and eastern regions and in AP/Telangana largely driven by increased execution of various government projects. Sales declined YoY during Q2FY18 in the central and southern regions mainly dragged by sand shortage in Uttar Pradesh and Tamil Nadu. Tamil Nadu and Kerala markets are also reeling under slackness in government projects' execution. Western region sales growth during Q2FY18 has been flattish as per industry estimates.
- **Seasonal price weakness across India, Gujarat registers 7% QoQ increase:** Seasonal demand weakness drove 2%/1% MoM reduction in average trade price (pan India) during Aug and Sep 2017. Prices corrected across all regions. During Q2FY18, average trade prices fell by 8%/5%/6%/4%/5% QoQ across north/central/east/west/south markets, leading to pan-India average price decline of 5% QoQ. However, if we adjust for ~2-3% reduction in effective tax rate post GST, average trade prices in Q2FY18 is expected to fall 5%/3%/4%/1%/3% QoQ across north/central/east/west/south markets, leading to pan India price fall by 2% QoQ. As per our checks, average NSR increased 7%/1% QoQ in Gujarat/ Tamil Nadu markets and it remained flat QoQ in the NE region.
- **Demand and pricing expected to pick up in Q3FY18:** Overall, dealers and marketing executives indicated that cement demand should recover post monsoon and as GST and RERA drag wanes off in coming months. Sand availability is also expected to recover in Uttar Pradesh and Tamil Nadu Q3FY18 onwards. A good monsoon across most parts should also drive recovery in retail demand going forward. Demand recovery should also lead to QoQ price rebound across all markets in subsequent months.
- **Stock recommendations:** We continue to remain positive on the cement sector led by improving demand and price outlook amid a slowdown in new expansions. In the large cap space, we like the market leader – UltraTech and recommend Buy on declines. In the mid cap space, we reiterate our Buy rating on Ramco Cements, JK Cement and Deccan Cement. Improving demand and pricing scenario in the NE region along with fast clearance of the subsidy backlog bodes well for Star Cement's profitability. We continue to retain our SELL rating on Shree Cement (expensive valuations), Ambuja Cements (limited growth outlook), JK Lakshmi and Orient Cement (both have large ongoing/expected capex to keep leverage at elevated levels). Limited growth visibility should restrict valuation rerating for ACC and Ambuja.

Stock Price Performance (%)*

| Company Name | 1 Mth | 3 Mth | 6 Mth | 1 Yr |
|------------------|-------|--------|--------|--------|
| ACC | (3.7) | 8.1 | 16.8 | 6.7 |
| Ambuja Cements | (1.4) | 10.0 | 14.5 | 10.3 |
| Deccan Cement | 0.0 | 0.4 | (3.3) | 8.3 |
| JK Cements | (4.6) | 0.4 | 5.0 | 6.8 |
| JK Lakshmi | (7.8) | (16.0) | (12.8) | (22.2) |
| Orient Cement | (5.2) | 0.1 | 6.9 | (30.1) |
| Ramco Cements | (2.2) | (0.1) | 5.0 | 13.4 |
| Shree Cement | 2.4 | 2.2 | 6.7 | 6.9 |
| Star Cement | (8.6) | (17.1) | (1.4) | 35.6 |
| UltraTech Cement | (5.3) | (4.1) | (4.4) | (0.7) |
| Nifty | 0.6 | 3.2 | 7.7 | 14.6 |

Source: Bloomberg; *as on 06 October 2017

Average cement price trend (Rs/bag)

| | Jun 2017 | Jul 2017 | Aug 2017 | Sep 2017 | Price chg (%) MoM-Sep 2017 |
|----------------------|------------|------------|------------|------------|----------------------------|
| North | 315 | 308 | 302 | 301 | (0.2) |
| Central | 316 | 308 | 302 | 299 | (0.9) |
| East | 340 | 331 | 327 | 322 | (1.5) |
| West | 323 | 310 | 302 | 296 | (2.1) |
| South | 356 | 350 | 345 | 340 | (1.5) |
| Pan-India avg | 330 | 321 | 315 | 312 | (1.2) |

Source: Dealers feedback, Centrum Research

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Valuation Summary

| Company | Rating | CMP* (Rs) | TP (Rs) | Up/ (Downside)% | Adj EPS (Rs) | | | EV/EBITDA (x) | | | EV/MT (USD) | | | RoCE (%) | | |
|---------------|--------|-----------|---------|-----------------|--------------|-------|-------|---------------|-------|-------|-------------|-------|-------|----------|-------|-------|
| | | | | | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E |
| ACC** | Hold | 1,740 | 1,520 | (12.6) | 34.2 | 43.6 | 62.3 | 18.0 | 16.7 | 13.0 | 123 | 144 | 140 | 7.3 | 9.1 | 12.4 |
| Ambuja Cem** | Sell | 279 | 200 | (28.3) | 4.9 | 7.0 | 8.4 | 15.0 | 21.8 | 18.2 | 131 | 212 | 211 | 6.7 | 7.2 | 8.3 |
| Deccan Cement | Buy | 572 | 740 | 29.3 | 33.3 | 40.2 | 55.5 | 6.8 | 6.8 | 4.8 | 46 | 51 | 46 | 11.5 | 12.7 | 15.9 |
| JK Cement | Buy | 972 | 1,310 | 34.8 | 35.4 | 55.2 | 79.8 | 10.5 | 10.3 | 8.0 | 87 | 100 | 92 | 8.9 | 11.1 | 13.7 |
| JK Lakshmi | Sell | 395 | 360 | (8.8) | 7.0 | 11.0 | 19.7 | 17.5 | 13.2 | 10.0 | 90 | 88 | 84 | 7.8 | 7.3 | 9.4 |
| Orient Cement | Sell | 155 | 114 | (26.2) | (1.6) | 6.2 | 6.1 | 25.1 | 13.2 | 10.0 | 86 | 89 | 87 | 1.4 | 7.7 | 7.0 |
| Ramco Cements | Buy | 705 | 820 | 16.3 | 27.3 | 35.4 | 43.5 | 13.9 | 13.5 | 10.9 | 154 | 181 | 175 | 11.9 | 14.7 | 16.3 |
| Shree Cement | Sell | 18,775 | 13,340 | (28.9) | 384.4 | 507.4 | 484.0 | 21.4 | 21.8 | 18.2 | 286 | 351 | 247 | 19.4 | 21.0 | 17.0 |
| Star Cement | Buy | 104 | 152 | 46.0 | 4.1 | 6.9 | 7.8 | 9.5 | 8.4 | 6.9 | 177 | 191 | 127 | 12.0 | 16.5 | 17.0 |
| UltraTech Cem | Hold | 3931 | 3,790 | (3.6) | 96.2 | 103.6 | 147.2 | 19.3 | 18.4 | 13.5 | 218 | 209 | 193 | 9.0 | 9.1 | 10.1 |

Source: Companies, Centrum Research Estimates, * as on 06 October 2017 Note: ** Y/E Dec

Cement Dealers' Feedback

Northern Region

- Cement demand continued to moderate MoM through August, but there were signs of revival from Mid-September. Sales were low due to heavy rainfall, issues with GST and RERA. However, sales have improved YoY basis mainly driven by increased project execution. Availability of sand improved across most regions in September. Dealers indicated that demand should improve going forward.
- Average trade prices fell 2% MoM in August and remained flat in September in the northern region to Rs301/bag. Dealers indicated that despite lower demand MoM during the monsoon, companies have been able to show supply discipline. Cement in non-trade segment in Rajasthan is selling at Rs60-70/bag discount to trade segment price. Prices have started recovering across Rajasthan and Punjab in September. Dealers expect prices to improve across all regions in the month of October. White Cement prices have been hiked in September.

Exhibit 1: Northern region - Trade price for A grade (Rs/bag)

| State (cities) | Jul-17 | Aug-17 | Sep-17 | Price change in Sep (Rs/bag) | Price change expectation for Oct-17 | Dealers' feedback/ analysis |
|---------------------------|------------|------------|------------|------------------------------|-------------------------------------|--|
| Delhi (Delhi) | 300 | 290 | 280 | (10) | 10 | Demand continues to remain low in the NCR region. Prices fell in Sep but have recovered partly in Oct. White cement/putty sales have remained stable and companies took 5-8% price hike in Sep. |
| Haryana (Faridabad) | 320 | 310 | 305 | (5) | - | Demand has been good from the IHB segment. Demand improved as the region witnessed moderate rainfall in September. Dealers are still having difficulties adjusting to GST. Prices have declined, but dealer expects current price to sustain. |
| Haryana (Hisar) | 305 | 295 | 295 | - | 5 | Demand has been coming from a few major government and private projects. Prices have remained stable. Dealer has indicated that companies are looking to hike prices by 5-10 Rs/bag in October. |
| Himachal Pradesh (Shimla) | 350 | 340 | 335 | (5) | - | Demand has been low due to heavy rainfall witnessed in the region. Prices have declined due to poor sales. |
| Punjab (Ludhiana) | 320 | 320 | 325 | 5 | 5 | Demand has been stable this month as demand from the IHB segment saw a surge. Demand from private and government projects continue to be low. Prices have risen on better demand scenario. Companies are looking to hike prices by 15 Rs/bag in October. Dealer has indicated that this price hike won't be sustainable in the market. |
| Rajasthan (Jodhpur) | 280 | 270 | 270 | - | - | Good cement demand. Things improving on ground. Prices holding on. No hike expected in October. |
| Rajasthan (Jaipur) | 245 | 245 | 260 | 15 | - | Cement demand was good. Prices recovered at end of the month. No further price hike seen in October. No sand problem |
| Rajasthan (Udaipur) | 270 | 270 | 270 | - | 5 | Cement sales continue to remain weak owing to GST issues. Prices holding on due to companies showing supply discipline. |
| Uttarakhand (Dehradun) | 380 | 375 | 370 | (5) | - | Demand has improved MoM. Demand from the IHB segment was strong. Prices have moderated slightly, but dealer has indicated that current prices will sustain. |
| Average | 308 | 302 | 301 | (1) | 3 | |

Source: Centrum Research

Central Region

- During Aug-Sep, Cement demand weakened sequentially across all parts of Uttar Pradesh (UP) and Madhya Pradesh (MP). Dealers in MP indicated heavy rainfall coupled with implementation of RERA has led to a slowdown in construction activities in the region. In Uttar Pradesh (UP), poor availability of sand coupled with higher sand prices continued to dampen demand. Heavy rainfall has also added to the woes. Dealers expect demand to improve in October on the back of good off take from government projects and better availability of sand.
- Amid slowing demand MoM, cement prices declined by 2% and 1% each during August and September. Sustained supply discipline among cement companies could restrict sharper dip in prices. Dealers have indicated that prices should improve in October as the demand scenario improves. As per dealers, the JPA's integration with UltraTech in the central region is progressing well as cement from JPA plants under UltraTech brand name is getting good acceptance and as UltraTech is reorganising its distribution network in the central region.

Exhibit 2: Central region - - Trade price for A grade (Rs/bag)

| State (cities) | Jul-17 | Aug-17 | Sep-17 | Price change in Sep (Rs/bag) | Price change expectation for Oct-17 | Dealers' feedback/ analysis |
|----------------|------------|------------|------------|------------------------------|-------------------------------------|---|
| MP (Bhopal) | 310 | 305 | 305 | - | - | Demand continues to be low due to low off take from private projects. Availability of sand has improved in September. Prices have been stable. Dealer expects current prices to sustain. |
| MP (Gwalior) | 320 | 315 | 305 | (10) | 5 | Demand has been low due to the poor off take from government projects. Private projects have slowed down post RERA. Dealers are having problems adjusting to GST. Companies are looking to hike prices in October. |
| MP (Indore) | 295 | 295 | 295 | - | - | Demand continues to remain subdued in September. Companies are not looking to change prices in October. |
| MP (Jabalpur) | 290 | 285 | 285 | - | - | Demand has been low due to poor off take from government projects and the IHB segment. Prices have corrected due to the poor demand scenario. |
| UP (Agra) | 305 | 295 | 290 | (5) | - | Demand is low due to poor demand from government projects. The region witnessed moderate rainfall which halted construction work. Prices have corrected due to the poor demand scenario. |
| UP (Allahabad) | 300 | 295 | 290 | (5) | 10 | Demand has dipped as sand prices have increased along with poor supply of sand. Prices have further dipped. Companies are looking to hike prices in October by 10 Rs/bag. Dealer has indicated that such a price hike won't sustain in the market. |
| UP (Lucknow) | 285 | 280 | 275 | (5) | - | Demand has stabilized in September as the region witnessed moderate rainfall which did not impact construction work. Demand is mainly coming from government projects. Work for the Lucknow Metro has started and Ultratech & Birla gold are supplying cement for this project. Timeline for the project is about 3-4 years. Prices have moderated slightly. Dealer has indicated that current prices should sustain. |
| UP (Moradabad) | 325 | 320 | 320 | - | - | Demand has been low due to poor off take from large projects. Prices have remained stable. |
| UP (Varanasi) | 340 | 330 | 330 | - | 10 | Demand has been low due to heavy rainfall and shortage of sand. Prices have declined due to poor demand. Companies have hiked prices by 10 Rs/bag in October. |
| Average | 308 | 302 | 299 | (3) | 3 | |

Source: Centrum Research

Eastern Region

- Cement demand declined MoM during August and September across all parts of the eastern region. Dealers indicated that poor availability of sand and higher sand prices (mostly in Bihar), coupled with heavy rainfall and supply constraints contributed to subdued demand. Dealers' expect overall demand scenario to improve in October on the back of pick-up in government projects execution and expected improvement in sand availability. Sales remained low in the NE Region due to floods experienced in some areas coupled with supply constraints leading to shortage in supply of cement.
- Cement prices partly moderated by ~1% MoM each during August and September (on top of ~3% MoM decline in July). As demand was weak due to heavy rainfall and shortage of sand, any major price reduction wouldn't have changed the demand scenario. Companies showed supply discipline to contain prices. Dealers have indicated that current prices would sustain and improve in some parts on the back of demand recovery in the month of October.

Exhibit 3: Eastern region- - Trade price for A grade (Rs/bag)

| State (cities) | Jul-17 | Aug-17 | Sep-17 | Price change in Sep (Rs/bag) | Price change expectation for Oct-17 | Dealers' feedback/ analysis |
|---------------------------|--------|--------|--------|------------------------------|-------------------------------------|---|
| Bihar (Patna) | 345 | 335 | 330 | (5) | (10) | Sand shortage continues. Companies not cutting prices as there is no demand visibility. |
| Bihar (Darbhanga) | 330 | 325 | 320 | (5) | - | Demand has been low due to heavy rainfall and shortage of sand. Prices have declined due to poor demand. Companies are looking to hike prices in October. |
| Bihar (Kishanganj) | 345 | 340 | 335 | (5) | - | Demand has been low as there were floods in the region which disrupted construction activities. Poor availability of sand due to heavy rains further dented demand. Prices have declined due to poor off take in demand. |
| Chhattisgarh (Ambikapur) | 240 | 235 | 240 | 5 | (5) | Demand has been good on the back of moderate rainfall and good demand from government projects. PMAY is contributing the most to the demand. Prices have improved on the back of demand revival. Dealer has indicated that any further price hike will not be sustainable. |
| Chhattisgarh (Raipur) | 225 | 225 | 220 | (5) | 10 | Demand has been low due to poor off take in government and private projects. Post GST, demand from private projects has dried up. Prices have declined by 5 Rs/bag. Companies have shown supply discipline to hold prices. Companies have hiked prices by 5-10 Rs/bag in October. Dealer has indicated that this price hike won't be sustainable in the market. |
| Jharkhand (Daltonganj) | 350 | 350 | 340 | (10) | - | Demand from private and government projects have been good. Demand from the IHB segment has been low. Availability of sand has been a problem, but the dealer expects better availability from October. Prices have declined at the start of the month due to heavy rainfall, but dealer expects prices to pick up from October. |
| Jharkhand (Jamshedpur) | 330 | 340 | 340 | - | - | Demand has been stable as government projects remain the major drivers of demand in the area. Companies have shown supply discipline to hold prices. Companies are looking to hike prices by 5 Rs/bag in October. |
| Jharkhand (Deoghar) | 335 | 325 | 320 | (5) | 10 | Demand has been low due poor availability of sand. Dealer expects demand to be subdued in October due to festive season. Prices have dipped in September, but companies have hiked prices from October. Dealer feels this price hike won't be sustainable. |
| Jharkhand (Ranchi) | 315 | 310 | 320 | 10 | - | Cement demand has been improving driven by good uptick in government spending. Companies' retention increased due to change in billing. Though companies have indicated price hike in September dealer has indicated that it is less likely to sustain. |
| NE Region (Jorhat -Assam) | 380 | 375 | 380 | 5 | 5 | Demand is stable as there was a pick-up in demand from government and private projects. Supply constraints continue due to the rail lines getting damaged during the floods. Dealer expects supply to normalize in October. Companies have shown supply discipline to hike prices. Companies are planning for another hike of 5 Rs/bag in October. |

| State (cities) | Jul-17 | Aug-17 | Sep-17 | Price change in Sep (Rs/bag) | Price change expectation for Oct-17 | Dealers' feedback/ analysis |
|-------------------------------|------------|------------|------------|------------------------------|-------------------------------------|--|
| NE Region (Guwahati) | 385 | 385 | 385 | - | 5 | Demand has been low on account of heavy rainfall and poor off take from government projects. The region has witnessed a shortage in stone chips which is delaying construction work. Along with this, the railway tracks were badly affected during rains and most of the trains coming into the region are delayed or cancelled. This is leading to a shortage in supply of cement. Dealer has indicated that demand should normalize in October. Companies have shown supply discipline to hold prices. |
| NE Region (Shillong) | 380 | 375 | 375 | - | - | Demand was low due to heavy rainfall. There was a shortage of workers due to festive season. There are no new projects coming up in the region. Dealer expects demand to improve in October. Companies have shown supply discipline to hold prices. |
| NE Region (Tripura/ Agartala) | 365 | 360 | 360 | - | 10 | Demand has been low due to heavy rainfall. Demand has improved in the second half of the month. Companies have shown supply discipline to hold prices. Companies have hiked prices in October. Dealer expects that this price hike should sustain in the market. |
| Odisha (Bhubaneswar) | 345 | 340 | 330 | (10) | - | Demand has been subdued due to heavy rainfall witnessed in the region. Most of the construction activities have been halted in the area. Dealer expects demand to improve post Diwali. Ramco Cement has been gaining market share in the region. Prices have declined due to the poor demand scenario. Dealer expects current prices to sustain. |
| Odisha (Rourkela) | 285 | 275 | 265 | (10) | - | Demand continues to be low due to heavy rainfall. Prices have come under pressure due to poor demand. Dealer expects current price to sustain. |
| West Bengal (Durgapur) | 325 | 325 | 320 | (5) | 5 | Demand has been low due to poor off take from government and private projects. Dealers are facing a shortage in working capital due to GST. Dealer expects demand to be subdued for the next 2 months. Prices have moderated, but companies are looking to hike prices in October. Dealer feels that any price hike won't be sustainable in the market. |
| West Bengal (Kharagpur) | 330 | 325 | 320 | (5) | - | Heavy rainfall has led to poor sales in September. Prices have declined but current price is sustainable in the market. |
| West Bengal (Kolkata) | 320 | 320 | 320 | - | - | Demand has been low as there is a shortage of workers due to festive season. The second half of the month saw very little demand due to shortage of workers which halted construction work. The region saw moderate rains in the month of September. Dealer expects demand to improve from October. Government housing projects are seen as the major driver of demand in the region. Prices have remained stable as companies have shown supply discipline to hold prices. JSW is selling at the same rate as other 'A' grade players. No new players have been able to increase market share in the last few months due to the poor demand scenario. |
| West Bengal (Siliguri) | 350 | 340 | 330 | (10) | - | Demand has been low on account of heavy rainfall. Festive season has also added to poor sales in the second half of the month. Dealer expects demand to improve in October. Prices have declined due to poor demand. |
| Average | 331 | 327 | 324 | (3) | 2 | |

Source: Centrum Research

Western Region

- Demand continued to decline MoM during August and September led by floods, issues with GST and poor real estate off take due to implementation of RERA. Dealers indicated that demand improved across Gujarat towards the second half of September. Strong demand from government projects has helped demand revival in Gujarat. In Maharashtra, demand has been low sequentially across most regions due to heavy rainfall and poor off take from private projects due to RERA. As per lateral checks, Maharashtra sales have grown at ~5% YoY during H1FY18 (on low base of last year). Dealers expect demand may remain subdued (sequentially) for the next few months.
- During both the Aug and Sep months, trade prices moderated by 3% each in Gujarat markets. In Maharashtra markets, trade prices fell 2%/1% MoM in Aug/Sep. Price decline continued in Gujarat (after sharp surge of Rs80/bag during Feb-Jun periods) as companies cut prices amidst heavy rainfall and poor demand in Aug-Sep. Dealers expect prices may rebound again if government projects gain pace. Prices are expected to remain volatile in Maharashtra on the back of subdued demand from real estate sector in the region, though infrastructure projects are expected to increase.

Exhibit 4: Western region- - Trade price for A grade (Rs/bag)

| State (cities) | Jul-17 | Aug-17 | Sep-17 | Price change in Sep (Rs/bag) | Price change expectation for Oct-17 | Dealers' feedback/ analysis |
|------------------------|------------|------------|------------|------------------------------|-------------------------------------|---|
| Gujarat (Ahmedabad) | 325 | 315 | 300 | (15) | - | Demand has been coming mainly from government projects. Demand from private projects has been poor. Prices have corrected due to volatility in demand. Companies are looking to hike prices in the Non-trade segment by 25 Rs/bag in October. Prices in the trade segment would be unchanged. |
| Gujarat (Rajkot) | 315 | 300 | 295 | (5) | 10 | Demand has been coming from a few major projects. Prices have moderated, but dealer expects current prices to sustain. Companies are looking to hike prices from October. |
| Gujarat (Surat) | 305 | 300 | 290 | (10) | - | Demand has stabilized as the region witnessed moderate rainfall and construction activities have been running smoothly. Demand is coming from a few major projects. Prices have come under pressure due to volatile demand. Dealer expects current prices to sustain. |
| Gujarat (Vadodara) | 315 | 305 | 300 | (5) | - | Demand has been stable as the area witnessed moderate rainfall, which did not stop construction activities. Demand from government projects continued to be strong. Private projects demand is still low due to RERA. Companies are looking to hike prices by 5-10 Rs/bag in October but dealer doesn't feel that any price hike would sustain in the market. |
| Gujarat (Jamnagar) | 310 | 300 | 290 | (10) | 10 | Demand has improved in September as the region witnessed moderate rainfall. Dealer expects demand to normalize in November. Prices have come under pressure due to weak demand. Companies have hiked prices in October, but the dealer feels this price hike won't be sustainable. |
| Maharashtra (Kolhapur) | 335 | 330 | 320 | (10) | - | Demand has been stable. Demand has picked up in the second half of the month. Prices have moderated due to heavy rainfall. Dealer has indicated that current price is sustainable. |
| Maharashtra (Nagpur) | 295 | 290 | 290 | - | 10 | Demand has been stable. The region witnessed moderate rainfall in September. Demand is mainly coming from the IHB segment. Prices have remained stable. Companies had hiked prices to 305 Rs/bag but that could not sustain. Companies are again looking to hike prices in October. |
| Maharashtra (Mumbai) | 315 | 310 | 305 | (5) | - | Real estate market has been badly hit post RERA implementation. As Mumbai is mostly a non-trade market, this has led to sharp fall in cement demand over the last 2-3 months. Prices have held on as companies are not aggressively pushing volumes. |
| Maharashtra (Pune) | 275 | 265 | 255 | (10) | - | Cement demand has been badly hit post RERA and GST. Prices are under pressure due to weak demand. As per the dealer, companies generally announce price hikes in first week of the month, but the same is rolled back at month end (when most of the sales happen). |
| Maharashtra (Beed) | 310 | 300 | 300 | - | - | Demand was subdued due to moderate rainfall and poor off take from the IHB segment. Demand from projects continued to be strong. Companies had hiked prices but the price hike could not sustain. |
| Maharashtra (Nashik) | 315 | 310 | 310 | - | - | Demand has been low from large projects. Demand continues to be good from the IHB segment and a few industrial projects. Prices have been very volatile over the past few weeks. Prices shot up to 325 Rs/bag and fell to 300 Rs/bag over the last month. Dealer has indicated that higher prices were not able to sustain in the market. |
| Average | 310 | 302 | 296 | (6) | 3 | |

Source: Centrum Research

Southern Region

- Amid good rains across south, sales moderated MoM during the past two months. Labour shortage also impacted construction activities during September. Sand shortage remains a big challenge in Tamil Nadu markets and even Vizag region witnessed sand shortage. In Karnataka too, sand availability has been poor and costly. Tamil Nadu and Kerala are also reeling under poor off take from government projects. As per laterals check, cement demand in AP/Telangana remained buoyant (+20% YoY) during Q2FY18 while demand has contracted ~20% YoY in Tamil Nadu and by ~5% YoY in Kerala.
- Cement prices moderated in AP-Telangana markets by 2% MoM during each of Aug and Sep months. Prices in Kerala and Karnataka markets dipped by 2% MoM in Aug and by 1% MoM in Sep. In Tamil Nadu, the fall was lower at 1% each during Aug and Sep. There is no recovery expected in October.

Exhibit 5: Southern region - Trade price for A grade (Rs/bag)

| State (cities) | Jul-17 | Aug-17 | Sep-17 | Price change in Sep (Rs/bag) | Price change expectation for Oct-17 | Dealers' feedback/ analysis |
|-----------------------------|------------|------------|------------|------------------------------|-------------------------------------|---|
| AP-T (Hyderabad) | 330 | 330 | 325 | (5) | (10) | Sales moderated on MoM basis due to the heavy rains and labour shortage during festive season. Dealers and consumers are all facing GST challenges which is also dragging sales across the state. Even real estate sector has not fully recovered from the demonetisation impact. The low cost housing project of the government is progressing well. |
| AP-T (Nalgonda) | 305 | 305 | 300 | (5) | (5) | Cement sales fell MoM over the past 2-3 months due to rains and owing to GST problems. Cement prices partly moderated amid weak demand. Amaravati demand is expected to gain pace in coming 12 months. |
| AP-T (Tirupati) | 355 | 340 | 335 | (5) | - | Demand has been low due to poor off take from government and private projects. Companies had hiked prices, but they could not sustain. Prices have been volatile due to the poor demand scenario. Dealer expects pricing and demand to improve in October. |
| AP-T (Vijaywada) | 330 | 320 | 310 | (10) | - | Demand has been low in the trade segment. Demand in the Non-trade segment has improved. Availability of sand has improved. There has been a shortage of red bricks, which has seen prices of red bricks soar. Prices have declined due to poor demand but dealer expects current prices to sustain. |
| AP-T (Vizag) | 315 | 310 | 295 | (15) | - | Demand has been low in September as work from the 'NTR' scheme has slowed down. Dealer has indicated that there was some amount of labour shortage also due to festive season. Prices have come under pressure as demand dipped. Dealer expects current prices to sustain. |
| Karnataka (Bangalore) | 370 | 365 | 365 | - | - | Cement demand has remained impacted due to RERA's drag on real estate sector. Sand problem continues. No price hike expected in Oct |
| Karnataka (Gulbarga) | 315 | 305 | 300 | (5) | - | Demand has been flat on a MoM basis. Demand is mainly coming from road and power projects from the government. Demand from the IHB segment is low. Prices have declined, but the dealer expects current prices to sustain. |
| Karnataka (Hubli) | 325 | 320 | 320 | - | - | Demand continues to be low as heavy rainfall and higher sand prices have led to poor sales. Prices are stable. |
| Kerala (Kochi) | 380 | 375 | 370 | (5) | (5) | Demand has been low due to poor off take from government projects. Prices have declined and dealer expects prices to decline even further in October. |
| Kerala (Malappuram) | 380 | 370 | 365 | (5) | - | Demand has been coming mainly from the IHB segment. Dealer expects demand to improve from October. Prices have moderated, but dealer expects current prices to sustain. |
| Kerala (Thiruvananthapuram) | 380 | 375 | 375 | - | - | Demand has been stable as government projects remain the major drivers of demand in the area. Dealer expects current price to sustain. |
| Tamil Nadu (Chennai) | 380 | 375 | 370 | (5) | - | Demand has been low due to poor availability of sand and heavy rainfall. Dealer expects demand to improve from November onwards. Prices have dipped due to poor demand. Companies are not looking to change prices in October. |
| Tamil Nadu (Madurai) | 390 | 390 | 385 | (5) | - | Demand has been low due to poor take from government projects and from the IHB segment. Dealers are having a difficult time adjusting to GST. Most dealers are facing working capital deficiencies due to it. Companies are offering discounts on freight to improve sales. Dealer expects demand to normalize from November. Prices have remained weak. Companies are not looking to change prices in the near future. |
| Average | 350 | 345 | 340 | (5) | (2) | |

Source: Centrum Research

Relative Valuation Summary

| Company | Mkt Cap (Rs bn) | CAGR FY17-19E (%) | | | EBITDA margin (%) | | | RoCE (%) | | | RoE (%) | | | Net D: E (x) | | | EV/EBITDA (x) | | |
|------------------|--------------------|-------------------|--------|------|-------------------|-------|-------|----------|-------|-------|---------|-------|-------|--------------|-------|-------|---------------|-------|-------|
| | | Rev. | EBITDA | PAT | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E |
| ACC | 326.7 | 8.7 | 25.3 | 34.9 | 12.7 | 14.7 | 16.9 | 7.3 | 9.1 | 12.4 | 7.4 | 9.3 | 12.8 | (0.2) | (0.3) | (0.4) | 18.0 | 16.7 | 13.0 |
| Ambuja Cements | 553.5 | 8.6 | 14.9 | 30.8 | 18.2 | 18.5 | 20.3 | 6.7 | 7.2 | 8.3 | 6.7 | 7.2 | 8.3 | (0.7) | (0.7) | (0.7) | 15.0 | 21.8 | 18.2 |
| Deccan Cements | 8.0 | 11.8 | 18.3 | 29.0 | 20.1 | 20.2 | 22.5 | 11.5 | 12.7 | 15.9 | 15.2 | 16.0 | 19.2 | 0.0 | (0.2) | (0.3) | 6.8 | 6.8 | 4.8 |
| JK Cements | 67.9 | 11.5 | 19.5 | 50.1 | 18.9 | 20.2 | 21.7 | 8.9 | 11.1 | 13.7 | 14.7 | 20.1 | 24.2 | 1.6 | 1.2 | 0.8 | 10.5 | 10.3 | 8.0 |
| JK Lakshmi | 46.5 | 11.0 | 27.3 | 68.0 | 12.6 | 14.5 | 16.5 | 7.8 | 7.3 | 9.4 | 6.1 | 9.0 | 14.4 | 1.2 | 1.0 | 0.8 | 17.5 | 13.2 | 10.0 |
| Orient Cement | 31.8 | 37.9 | 79.9 | NM | 9.5 | 17.8 | 16.2 | 1.4 | 7.7 | 7.0 | (3.2) | 8.7 | 6.9 | 1.3 | 1.3 | 1.1 | 25.1 | 13.2 | 10.0 |
| Ramco Cements | 167.8 | 12.5 | 19.9 | 26.2 | 28.1 | 30.4 | 31.9 | 11.9 | 14.7 | 16.3 | 19.2 | 20.9 | 21.3 | 0.4 | 0.2 | 0.0 | 13.9 | 13.5 | 10.9 |
| Shree Cement | 654.1 | 17.7 | 19.5 | 12.2 | 28.1 | 29.0 | 28.9 | 19.4 | 21.0 | 17.0 | 20.4 | 22.7 | 18.0 | (0.4) | (0.4) | (0.4) | 21.4 | 21.8 | 18.2 |
| Star Cement | 43.7 | 11.8 | 17.0 | 38.5 | 25.4 | 31.0 | 27.8 | 12.0 | 16.5 | 17.0 | 14.8 | 21.0 | 19.6 | 0.6 | 0.1 | (0.3) | 9.5 | 8.4 | 6.9 |
| UltraTech Cement | 1,079.1 | 20.7 | 31.4 | 23.7 | 20.8 | 22.5 | 24.7 | 9.0 | 9.1 | 10.1 | 11.6 | 11.3 | 14.3 | (0.1) | 0.4 | 0.3 | 19.3 | 18.4 | 13.5 |

Source: Company, Centrum Research Estimates

Appendix A

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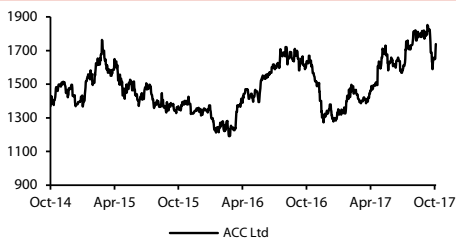
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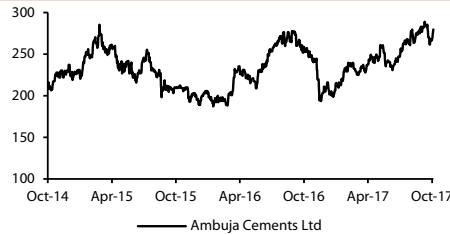
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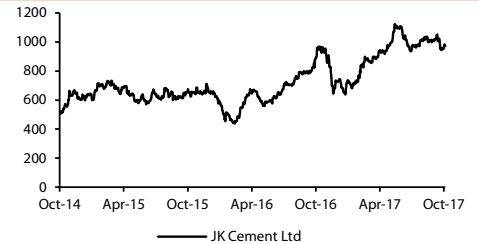
ACC price chart



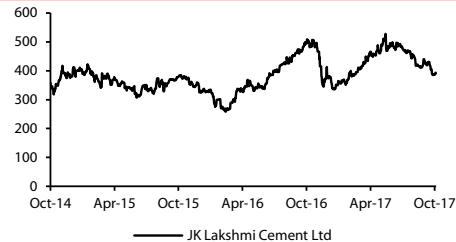
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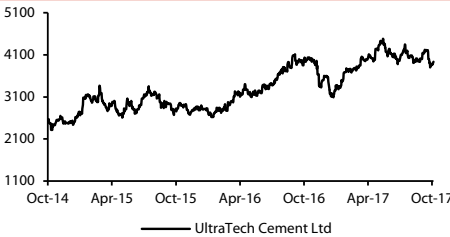
JK Cements price chart



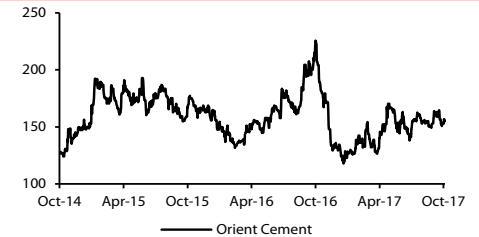
JK Lakshmi price chart



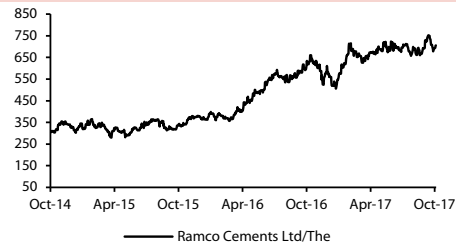
UltraTech Cement price chart



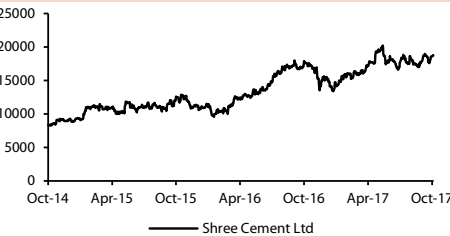
Orient Cement price chart



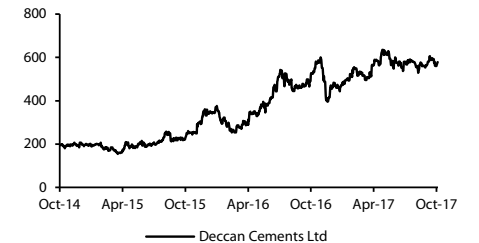
Ramco Cements price chart



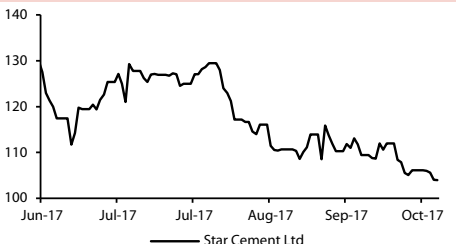
Shree Cement price chart



Deccan Cement price chart



Star Cement price chart



Source: Bloomberg, Centrum Research

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|--------|-----------------------------|---------------------------------|-----------------------------|
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| Hold | Upside between -20% to +20% | Upside between -15% to +15% | Upside between -10% to +10% |
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