

Cement

INDIAN CEMENT: Channel checks reveal “Unusually weak demand in Jan/Feb -13”; Dealers’ near-term outlook muted

- We spoke to several dealers across India to get insights on cement demand. Majority of the dealers highlighted severe weakness in demand (unusual for JFM quarter) and poor visibility of immediate revival.
- Prices have been stable in last 15 days, after increasing up to INR20/bag MoM till 15-Feb. This includes specific trend of (a) stable pricing in North and Central, (b) INR10-20/bag increase in East and West, and (c) INR0-10/bag increase in South.
- While some dealers (Eastern region) hinted at another price hike of INR10/bag in current week, actual price absorption is unlikely to catch up and therefore, may witness moderation over next one month if volume continues to remain tepid.
- Based on IIP data (index of 8 core industries), we estimate cement dispatch to have de-grown 6.6% YoY in January-13 (v/s growth of 5.5% YoY in Dec-12), and a growth of 4.5% YoY over 10MFY13. The de-growth comes as a disappointment on the onset of seasonally strong quarter. We estimate Feb-13 volumes to decline 10% YoY and Mar-13 to grow 5% YoY, translating into FY13 volume growth of 3.2% (v/s our earlier estimate of 7.9%).

Sector view & strategy: Prefer UltraTech/Grasim in large caps and Shree, Dalmia Bharat, JK Cement, Madras Cement in mid-caps

- We estimate Feb-13 volumes to decline 10% YoY and Mar-13 to grow 5% YoY, translating into FY13 volume growth of 3.2% (v/s our earlier estimate of 7.9%).
- As against our current estimate of ~INR15/bag QoQ improvement in 4QFY13, we believe actual price increase would be ~INR10/bag QoQ in 4QFY13, resulting in potential downgrade in our EPS estimates.
- While demand recovery is expected to be gradual, slowing capacity addition coupled with higher capex and opex cost, would support cement prices and profitability going forward. While we estimate cement price increase of INR15/INR12.5 per bag in FY14/FY15, considering cost push we are factoring in for EBITDA/ton improvement of just INR6/4 per bag in FY14/FY15. In large-caps we prefer **UltraTech/Grasim** and **Shree Cement**, whereas in mid-caps we prefer **Dalmia Bharat, JK Cement** and **Madras Cement**.

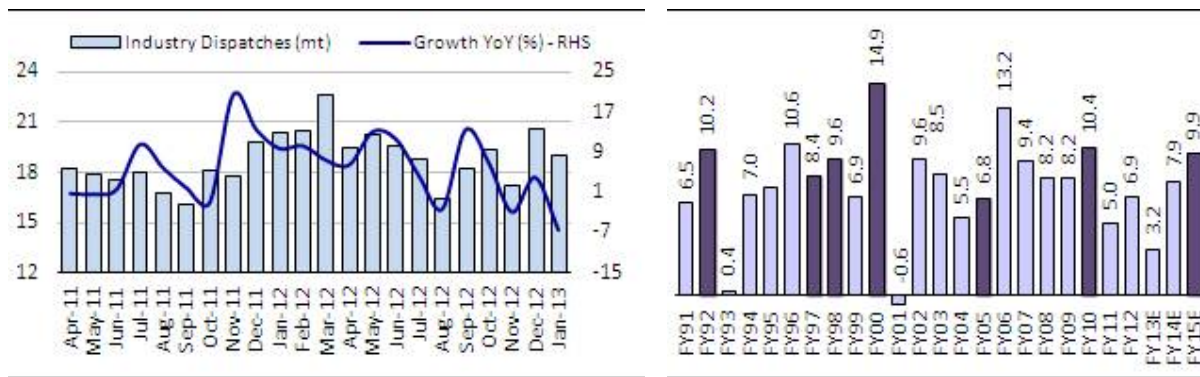
Comparative Valuations																
	Reco	CMP	Target Price	Upside (%)	EPS (INR)			PE (x)			EV/EBITDA (x)			EV/TON (USD) - CAP		
					FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E
ACC*	Neutral	1,259	1,460	16	68.7	71.7	93.5	18.3	17.6	13.5	10.3	8.8	6.5	120	111	101
Ambuja*	Neutral	195	202	4	10.0	11.0	13.4	19.4	17.6	14.6	10.3	9.4	7.6	169	164	150
Grasim #	Buy	3,011	4,906	63	320.6	357.6	451.8	9.4	8.4	6.7	4.2	3.9	2.1	105	98	90
Ultratech	Buy	1,896	2,424	28	106.3	126.6	152.3	17.8	15.0	12.4	9.9	8.3	7.0	177	152	149
Shree Cement	Buy	4,187	6,228	49	327.4	381.0	469.1	12.8	11.0	8.9	7.1	5.6	4.2	128	108	85
Birla Corp	Buy	261	433	66	32.8	40.7	57.7	8.0	6.4	4.5	4.4	3.0	1.9	32	29	24
India Cements	Buy	85	125	47	7.2	12.8	19.2	11.8	6.7	4.4	5.9	4.4	3.3	67	62	56
Dalmia Bharat Ent.	Buy	151	322	113	25.0	22.9	27.6	6.0	6.6	5.5	4.8	3.9	3.5	48	45	41
JK Cement	Buy	302	578	92	33.8	42.8	62.1	8.9	7.1	4.9	4.4	4.1	4.1	67	74	75
JK Lakshmi Cement	Buy	124	243	95	17.8	20.3	25.0	7.0	6.1	5.0	3.2	3.9	3.0	52	50	45
Madras Cement	Buy	242	352	45	19.0	24.0	31.8	12.7	10.1	7.6	7.3	5.8	4.3	109	102	89
Orient Paper	Buy	71	109	54	6.3	10.0	14.0	11.2	7.1	5.0	7.4	4.1	2.6	46	26	6
Century Textile	Neutral	323	461	43	-5.0	-4.3	6.0	-65.2	-74.6	54.2	13.0	13.0	10.0	56	64	57
Prism Cement	Neutral	42	44	5	-1.6	2.6	4.8	-25.2	16.2	8.7	16.6	6.7	5.2	92	70	60
Large Cement - Agg								17.4	15.3	12.5	9.5	8.1	6.6	155	140	132
Small Cement - Agg								11.7	8.1	5.8	6.1	4.6	3.6	69	66	60
Sector Aggregate ^								16.3	13.7	10.8	8.5	7.0	5.6	123	113	104

* Y/E December; ^ Aggregates excludes Grasim & JaiPrakash; # Merger/De-merger of Grasim's cement assets assumed from 2QFY11

10MFY13 dispatch estimated to have grown ~4.5% YoY

- Based on IIP data (index of 8 core industries), we estimate cement dispatch to have de-grown 6.6% YoY in January-13 (v/s growth of 5.5% YoY in Dec-12), and a growth of 4.5% YoY over 10MFY13. The de-growth comes as a disappointment on the onset of seasonally strong quarter.
- However, some key players which have announced dispatch volumes in January-13 have reported moderate to high volume growth, viz, (1) UltraTech (+1.8%YoY, +4.7% MoM), (2) Shree Cement (+10.8% YoY, +12.35% MoM) and Dalmia (+14.8% YoY, effect of north-east plants consolidation).

Our interaction with dealers across regions highlights further deterioration in volume in February-13, which partially signifies the prevailing weakness in demand and partially the production discipline followed by cement manufacturers to ensure pricing resilience.



Actual QoQ price hike could be ~INR10/bag v/s est. of INR15/bag in 4QFY13
Leading to potential downgrades in FY14/15E EPS estimates (%)

	CY13E/FY14E	CY14E/FY15E
ACC	18.4	15.5
Ambuja	9.3	8.5
Ultratech	9.7	9.0
Shree cement	8.1	7.0

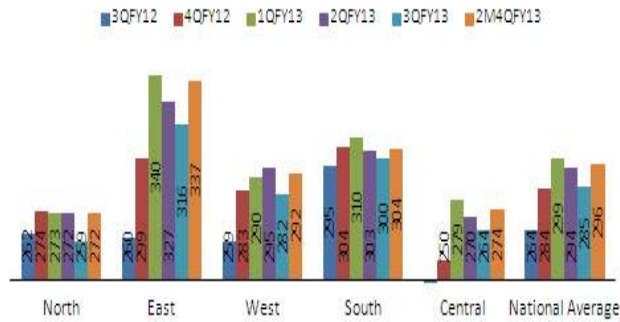
Regions	16-Dec-12			15-Jan-13			05-Feb-13			T Seg
	Trade Segment	Non-trade segment	Change (INR)	Trade Segment	Non-trade segment	Change (INR)	Trade Segment	Non-trade segment	Change (INR)	
Delhi	250-260	235	Down 10	255-270	240	Up 5-10	270-280	245-250	Up 10-15	27
Jodhpur	240-245	196	Down 15-25	255-260	228	Up 10-20	270-275	245-250	Up 15	27
Chandigarh	240	210-215	Down 20-25	260-265	215-220	Up 25	270-280	240-250	Up 10-15	28
Kolkata	325-330	270	Down 15	340-345	280	Up 20	360-370	315-320	Up 20-25	37
Patna	250-280	250	Down 20	270-300	275	Up 20	300-320	280-290	Up 5-10	31
Raipur	240-255	215	Down 0-5	245-255	215	Up 0-5	245-260	225	Up 0-5	26
Ranchi	290-310	270	Down 0-10	320-330	275-280	Up 20-30	360-370	310	Up 25	36
Mumbai	270-280	275	Down 25-30	290-300	275-290	Up 15-20	300-310	290-295	Up 5-10	30
Pune	270-290	265-270	Down 20-25	275-290	265-270	Up 0-5	280-290	265	Up 0-5	31
Ahmadabad	260-265	245	Down 20	270-280	265	Up 10-15	280-300	275	Up 10-20	30
Nagpur	285-302	250-255	Down 20	275-295	255	Down 10	280-295	260-265	Up 10	30
Hyderabad	230-240	230-240	Down 20-25	215-225	205-215	Down 15-20	225-235	215-225	Up 15-20	23
Bangalore	315-320	260	Up 0-5	310-330	270-275	Up 0-5	320-325	295-300	Up 5-10	30
Chennai	270-275	250	Down 15-20	265-280	255-260	Stable	280-300	270-275	Up 10-20	29
Cochin	315-350	300-330	Down 0-5	315-350	300	Stable	325-360	310-315	Up 5-10	30
Lucknow	245-275	225-230	Down 10-15	255-285	225-235	Up 10	280-295	260-265	Up 10-20	30
Kanpur	220-235		NA	240-255		Up 20	280-285		Up 30-40	30
Indore	250-270	215	Down 10	260-275	215-225	Up 5-10	270-290	245-255	Up 10-15	28

Seasonal uptrend not strong enough; MoM price escalation of INR10/bag in February-13 may not sustain on weak demand

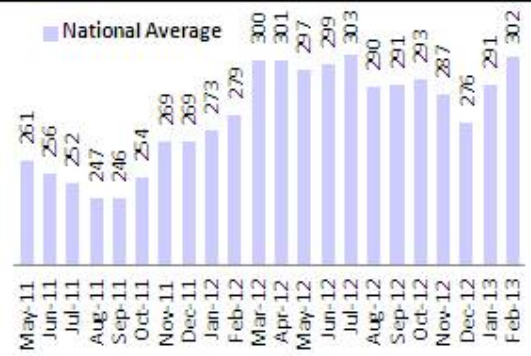
- Prices have been on a seasonal uptrend over mid-Jan to mid-Feb (INR15-30/bag across regions) with the arrival of peak business season, before stagnating in 2nd half of Feb-13.
- Our recent channel checks on last one month's pricing trends (over February-13) indicates INR0-20/bag MoM increase in official cement prices. This includes specific trend of (a) stable pricings in North and Central, (b) INR10-20/bag increase in East and West, and (c) INR0-10/bag increase in South.

However majority of the dealers we interacted with, highlighted severe weakness in demand and lower visibility of immediate revival – a huge threat to the high cement prices. While some dealers (eastern regions) hinted at another price hike of INR10/bag in current week, actual price absorption is unlikely to catch up and therefore, may witness moderation over next one month if volume continues to remain tepid.

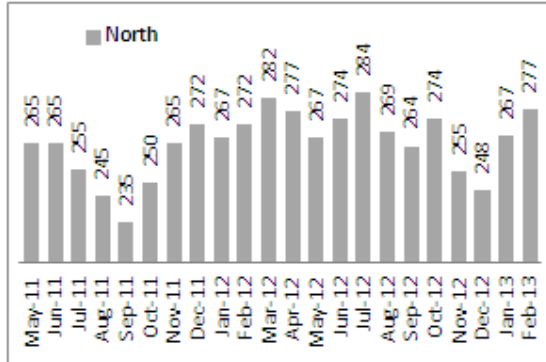
Cement price stagnates over 2nd half of Feb-13, some sporadic price rises amidst weak demand



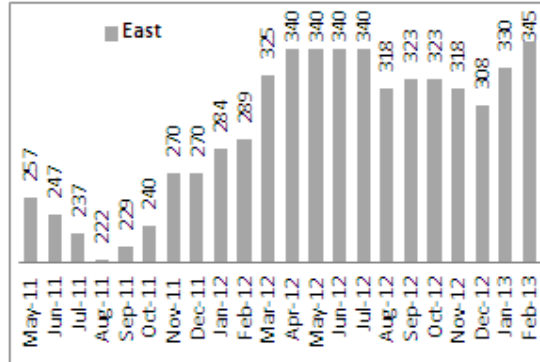
National average prices up INR10/bag MoM (stable in 2nd half of Feb-13)



Northern region prices trend (INR/bag)



Eastern region prices trend (INR/bag)



Northern region: Prices stagnates; tepid demand suggests downward pricing risk from escalated level

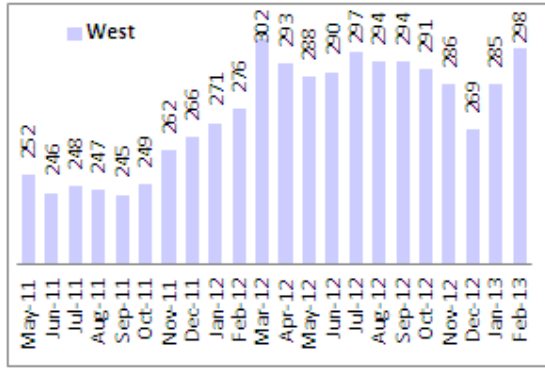
- Cement prices are broadly stable in 2nd half of Feb-13, after uptick of INR15-25/bag since Dec-12 end.
- Demand continues to remain weak with some regions like Chandigarh seeing almost 30-40% decline in MoM volume in Feb-13, largely on account of severe slowdown in construction activities and adverse weather (heavy untimely rain) and sharp rise in sand prices in North.
- Weighted average prices in North stood at INR277/bag. Jodhpur dealers highlighted prevalence of old prices till recently even after official rate hike.
- Outlook remains weak till Mar-13 as demand visibility stands weak.

East region: Prices up INR5-15/bag ; demand visibility subdued till Holi

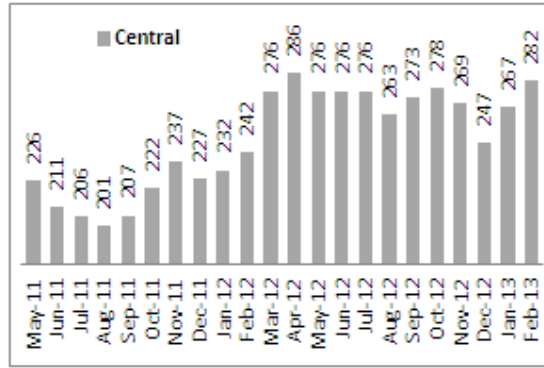
- Prices are up INR35-50/bag since bottom in Dec-12, including INR5-15/bag in 2nd half of Feb-13.
- Dealers consider the higher prices are artificial in nature with production discipline, as actual demand remains far less encouraging than a typical strong season volume.
- Supplies from South and Rajasthan continue to remain overhang.
- Weighted average price stood at INR345/bag. Possible official price rise of ~INR10/bag in current week.

- The gap between tier I and II brands has narrowed from INR50/bag to INR40/bag.
- However, demand unlikely to improve till Holi, and therefore, actual prices are expected to feel downward pressure.

West inches up moderately (INR/bag)



Central region prices trend (INR/bag)



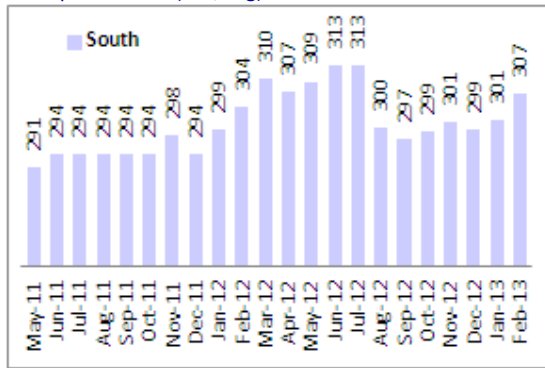
Western region: Relatively better demand holding up pricing, barring Ahmadabad

- Pune prices are up INR20-30/bag after weakness in January. Dealers hinted for stable demand.
- Mumbai prices remain unaltered over 2nd half of Feb-13, construction activities picking up, albeit at a lower than expected pace.
- Ahmadabad has been witnessing strong volatility and dealers expects weakening of demand till Holi due to labor shortage.
- Average price stood at INR298.

Central region: Prices stable after +INR15/bag rise in Jan-mid to Feb-mid

- Prices are stable in Lucknow, Kanpur and Indore. Average prices stood at INR282/bag.
- Demand posted marginal improvement. Dealers in MP expects good harvesting season to boost rural demand. Medium-term demand outlook is optimistic with several infrastructure/power projects underway.
- However near-term outlook remains weak with no expectation of price hike.

South prices trend (INR/bag)



South region: Stable pricing, weak demand; AP prices continue to remain volatile

- Weighted average prices stood at INR307/bag. Prices increased by ~INR5-10/bag MoM in Bangalore, while Chennai and Cochin remains stable MoM.
- AP prices continue to remain volatile due to weak understanding. Feb-end price stood at INR10/bag higher than Jan-end at INR235-245/bag.
- However AP is witnessing improvement in demand since Dec-12.

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