

## Cement Sector

25 August, 2021

### Pricing largely resilient despite monsoon season

Cement prices across the country witnessed a marginal seasonal correction in August 2021 amid a sharp increase in various input costs. All-India cement prices declined by 1.4% MoM in August 2021 and are now down by just 1.9% on QoQ basis. This is on the back of ~6% QoQ increase in realisations for our coverage universe in 1QFY22. While pricing is largely resilient across various regions, we have seen sharp corrections in some parts of South India and West India. Pricing in Central India remained stable whereas West and South saw some correction in prices. In West India, Pune and Nagpur saw a sharp decline in cement prices whereas in South India, Hyderabad reported a sharp drop in prices. Most dealers do not expect any price hikes over the next one month. On a positive note, various regions reported pick-up in demand in August 2021 compared to July 2021 as the impact of monsoon on construction activities was relatively limited. Given the increased prices of coal, petcoke and diesel, we believe that EBITDA/mt for 2QFY22 should decline by Rs150-200/mt from 1QFY22 levels.

Based on our channel checks as of 22<sup>nd</sup> August, 2021, cement prices at the pan-India level have declined by 1.4% to Rs344/bag over the past one month. The price decline is the highest in West India (down 2.1% MoM, Rs8/bag) followed by South India (down 1.9% MoM, Rs7/bag). For West India, Pune saw maximum MoM decline of Rs15/bag while the same in Nagpur was Rs13/bag. Prices in Mumbai and Gujarat remained stable. In South India, Hyderabad saw maximum decline of Rs18/bag MoM whereas rest of the market saw marginal Rs5-7/bag decline. We have a 'neutral' view on the cement sector and our preferred picks are Ultratech, Birla Corp, Star Cement and Sagar Cements. Please find the regional feedback below. Growth or change in pricing mentioned below is based on monthly period unless specified otherwise.

**West:** Overall, the region saw Rs8/bag decline in trade prices at Rs343 while non-trade prices remained at ~Rs300. Prices declined in Pune and Nagpur by Rs15/bag and Rs13/bag, respectively. The difference between trade and non-trade prices remained at Rs40-45/bag. Cement demand in the region was stable, owing to better infrastructure activities and increased trade demand.

**East:** Despite a sharp increase in prices in the region in 1QFY22, prices have remained resilient and have not corrected much. Better-than-expected demand and increased cost pressures have helped keep pricing relatively stable. Cement prices declined marginally by Rs1/bag in August 2021 at Rs313/bag. Highest decline was reported in Patna whereas prices in Kolkata, Ranchi and Raipur were stable. Few dealers indicated that retail demand improved in August 2021 despite monsoon.

**North:** Cement demand declined due to seasonal weakness in the region, but a few dealers reported that demand in August 2021 was better than in July 2021. Cement prices in the region declined by 1.8% MoM to Rs342/bag vs Rs348 in July 2021 and Rs351 in 1QFY22. Prices in Jaipur continued to fall for the second consecutive month and are now down by Rs14/bag vs June-end. There was an attempt to increase prices in August 2021, but it could not sustain.

**South:** Trade prices decreased by Rs7/bag to Rs373 and non-trade prices decreased by Rs5/bag to Rs326. Price decline was sharp in Andhra Pradesh and Telangana whereas Bangalore prices improved by Rs5/bag. Barring Hyderabad, other cities reported stable pricing. Higher COVID cases in the region coupled with sand availability issues have resulted in considerable weakness in demand. Few dealers expected some correction in prices in Kerala, Chennai and Bangalore in the coming months.

**Central:** Cement prices remained stable in the region with minor Rs2/bag correction. Current trade prices are now hovering ~Rs351/bag vs Rs353 in July 2021. Kanpur saw the highest decline of Rs6/bag whereas prices in Indore and Bhopal were flat MoM. Demand remains steady in the region and dealers do not expect material change in prices from the current levels.

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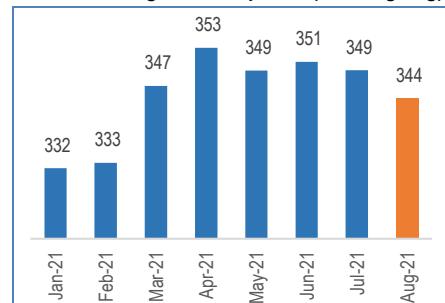
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All India average cement prices (Rs/50Kg bag)



Source: Industry, Nirmal Bang Institutional Research

### Average cement prices in trade segment (Rs/50 Kg bag)

Region	4QFY21 Avg	1QFY22 Avg	July'21	August'21	MoM chg %	Chg vs 1QFY22 (%)
West	332	350	351	343	-2.1	-2.0
East	286	319	314	313	-0.4	-1.9
North	342	351	348	342	-1.8	-2.6
South	374	384	381	373	-1.9	-2.9
Central	349	352	354	352	-0.6	-0.1
All India	337	351	349	344	-1.4	-1.9

Source: Industry, Nirmal Bang Institutional Research

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