

## Cement

### Prices in South decline, too soon too fast

Cement prices continued on their downward trajectory for yet another month, but this time at an accelerated pace, particularly in Andhra Pradesh (AP). Cement prices in this market are currently hovering around Rs 150-155/bag, down by Rs 50-60/bag from its peak two months back. Cement prices in Chennai too have declined by Rs 15-20/bag to ~Rs 230-240/bag. Dealers believe that prices in south India could fall further in the coming weeks as demand shows no signs of revival. While prices in central and northern regions, particularly in Delhi, have remained flat, that in the western region of Pune have declined by 15-20/bag. Interestingly, these price corrections have happened during the pre-monsoon period; with the monsoon setting in, a further drop cannot be ruled out. We continue to maintain Sell on ACC, Ultra Tech, and India Cements. Grasim (post steep correction) and Shree Cement remain out best bets in the sector.

**South prices nosedive:** Our dealer checks indicate that cement prices in the south have declined by Rs 15-20/bag across states. This revision has brought down prices in Chennai to Rs 230-240/bag and Bangalore to Rs 230/bag. The decline has been sharper in AP – cement prices in this market have tumbled by Rs 55-60/bag from its peak two months back and currently stand in the range of 150-155/bag. With monsoon setting in and the demand already lackluster, further price cuts in the south are inevitable.

**Western region a mixed bag:** The Pune market in the western region is essentially correlated with the AP market as dispatches enter Maharashtra from AP, once the gap between the prices widens. Prices in the Pune market have corrected by Rs 15-20/bag in the last 15 days. Dealers opine that prices could well go below Rs 200/bag as monsoon sets in and AP market looks weak. For the Mumbai market, although prices have been steady at Rs 245-250/bag, a decline is expected in the next 15-20 days.

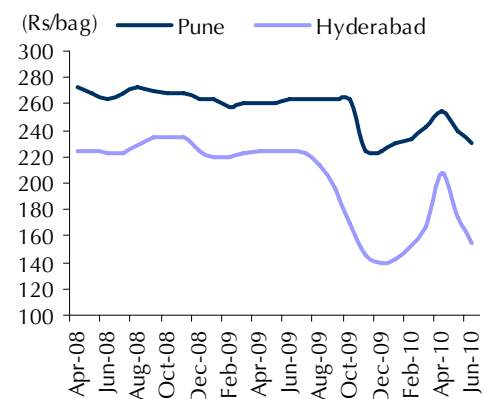
**Northern region stays flat:** Cement prices in New Delhi have remained steady at Rs 245-250/bag. Gurgaon, however, has seen a drop of Rs 5-10/bag to Rs 225-230/bag and, is likely to see a further decline of Rs 5-10/ bag in the coming weeks. While prices in Jaipur have increased by Rs 5/bag in last 15 days, and are in the Rs 230-238/bag range currently, our dealer checks suggest that since demand is low, the price rise may not be absorbed by the market.

**Central region flat; eastern markets see a decline:** Cement prices in Uttar Pradesh have remained flat at Rs 250/bag; however, demand continues to be weak in this market. In the eastern region, especially in Kolkata, prices have declined by Rs 5/bag and are currently at Rs 280-290/bag; in the bulk segment, prices are hovering at Rs 260-265/bag. Dealer suggests prices in this market could decline by Rs 10-15/bag.

**Caution advocated:** Given the low single-digit demand growth, lurking monsoons, and increased supply pressure, we believe this is not an opportune time to enter pure cement players. We reinstate a Sell on ACC, Ultra Tech, and India Cements. Grasim (post significant correction in last one month) and Shree Cement remain our best bets in the cement sector.

### Monthly Dealer Check

Pune (West) v/s Hyderabad (South) cement prices



Source: Industry, RCML Research

Cement prices in south India have nosedived but have remained steady in central & northern regions

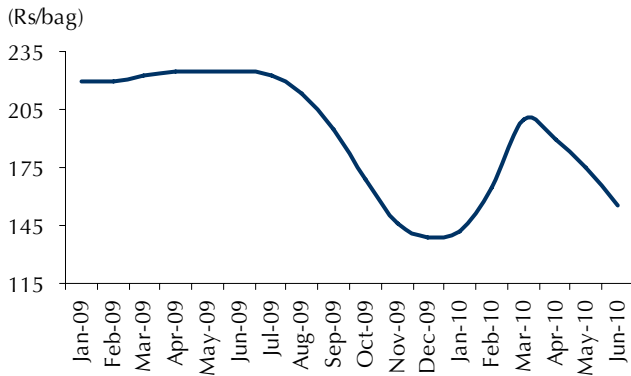
Low demand, a lurking monsoon, high supply pressure – not the right time for entering pure cement plays





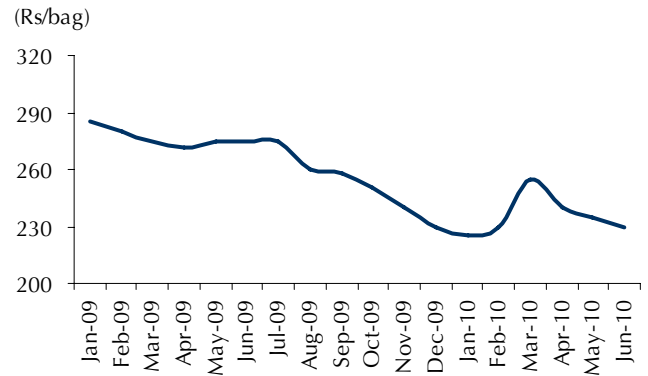
# Cement prices see steep correction in South

**Fig 1 - Hyderabad (South)**



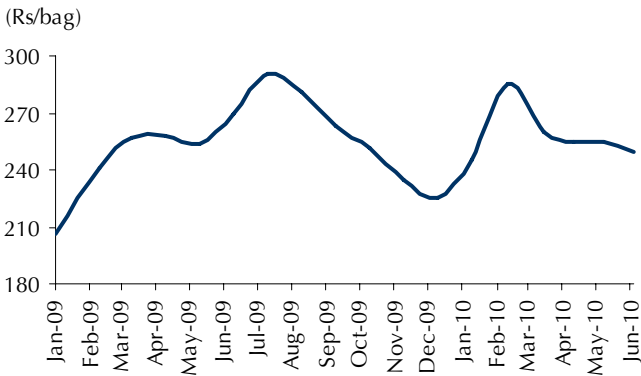
Source: Industry, RCML Research

**Fig 2 - Bangalore (South)**



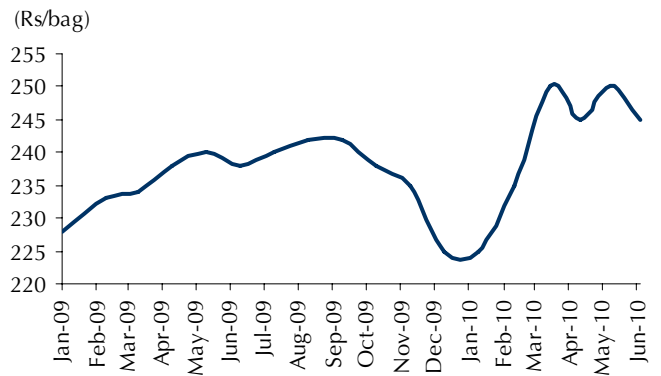
Source: Industry, RCML Research

**Fig 3 - Lucknow (Central)**



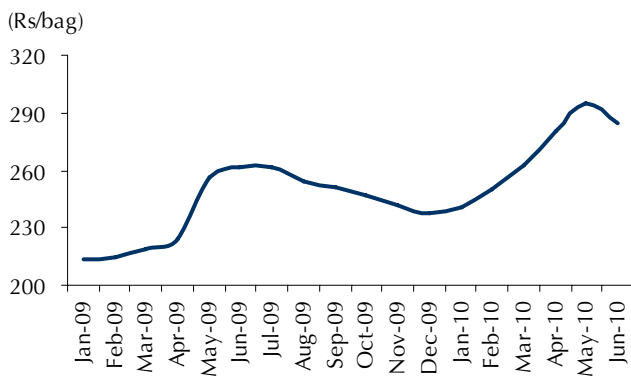
Source: Industry, RCML Research

**Fig 4 - Delhi (North)**



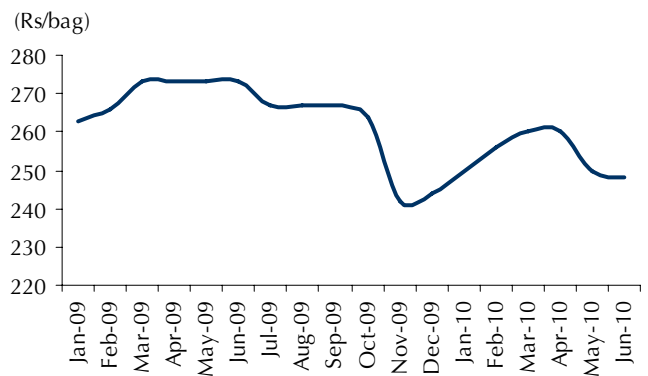
Source: Industry, RCML Research

**Fig 5 - Kolkatta (East)**



Source: Industry, RCML Research

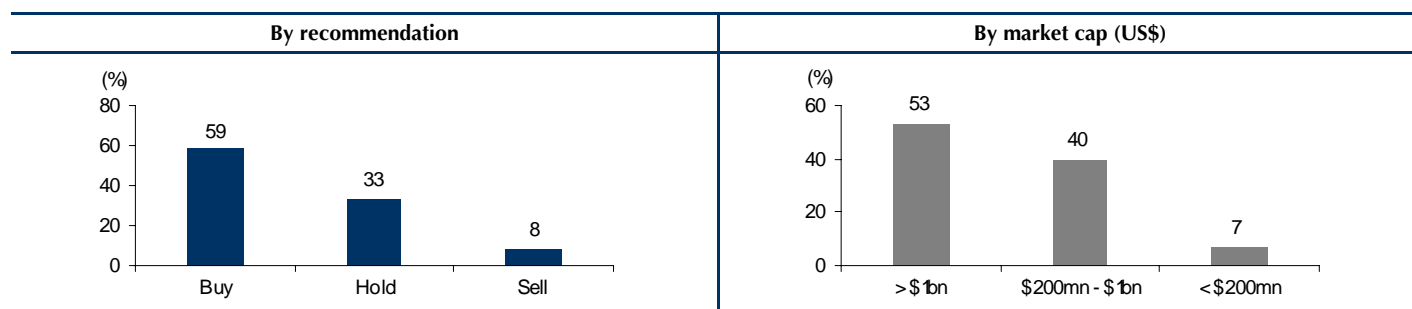
**Fig 6 - Mumbai (West)**



Source: Industry, RCML Research



### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

### Religare Capital Markets Ltd

4<sup>th</sup> Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

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