

# Cement Industry Update

CEMENT DISPATCH DATA FOR THE MONTH OF MARCH 2012



## Cement

Cement dispatches continued to grow in double digit for the fourth consecutive month on account of increase in offtake from construction activities post monsoon. Demand is improving in rural housing, semi-urban housing and infrastructure segments in the western, northern and most importantly southern regions.

Dispatch numbers reported by cement giants were in-line with our estimates with YoY growth of 12.1%.

After a sharp increase witnessed in cement prices in the last month, we expect the same to remain stable going forward. We expect cement demand to remain upbeat as the industry is heading towards the pre-monsoon period, which is traditionally a period of increased demand. Moreover the Union Budget's focus on developing infrastructure and on affordable and rural housing should provide a boost to cement demand over the next few quarters. We maintain our demand growth estimate of 8% in FY13.

### Cumulative volume of top players grew by 12.1%

The top 4 pan India players recorded a YoY dispatch growth of 12.1% in March 2012, aided by robust rural demand and pick-up in construction activities across regions. A sharp pick up is seen in housing demand from unorganized sector. Despite a superlative growth of 12.1% in Feb 2012, cement dispatches improved by 9.9% on a sequential basis, indicating some strong recovery in demand. Their cumulative sales in the last financial year i.e April-March period improved by 8.6% to 104.96 mt. Jaypee once again outperformed other players with 32.5% YoY growth in dispatches mainly due to lower base in March 2011.

### Industry dispatches to continue its growth momentum

With country's top cement manufacturers reporting robust sales, we expect the industry-wide dispatches to grow by ~11% in the month of March 2012.

### Superlative growth for the fourth consecutive month

Cement industry has witnessed demand revival since November 2011 and has grown at more than 9% in the last four consecutive months aided by strong demand in the northern & western region. On an all-India basis, total cement dispatches grew by 9.7% YoY in February to 20.4 mt (SPA expectation ~10%), despite the high-base effect (Feb 11 growth 7.8%) due to pre-election spending in Uttar Pradesh and Gujarat. On a MoM basis, dispatches remained almost flat. Capacity utilisation for Feb 2012 stood at 81% vs 79% in Feb 2011 & 82% in Jan 2012. The sector has so far (YTD basis April- Feb 12) clocked a decent YoY growth of ~6.5% to 200.5 mt

and operated at a capacity utilization of 73% this fiscal as against 75% in the same period last year.

Consumption in the Northern region grew by 13.0% owing to increasing rural demand in Punjab, Haryana and Rajasthan. Consumption in the western region grew by 10.0% driven by better demand in Gujarat due to mass housing schemes in light of state elections in 2012. Dispatches further improved by 10.7% in Central, 7.3% in the South and 3.6% in the Eastern region.

### India's Eight Core Sector Growth Up In Feb

India's eight core industries growth having a combined weight of 37.90% in the IIP expanded to 6.8% in February, compared to 6.4% in last February and just 0.5% in Jan 2012, mainly due to increased output of coal, cement, electricity and petroleum refinery products. Cement production (2.41% weightage in IIP) registered a robust growth of 10.8% in the same period as against a growth of 6.5% in Feb 2011.

### Budget 2012-13 largely positive for the sector

Increase in excise duty by 2% will result in surge in cement prices by INR4-5/kg. However it is largely neutral for the sector as the increased burden will be passed on to end consumers. Cement companies suffer from inadequate availability of domestic coal. Hence proposal to exempt imported non-coking coal from basic customs duty of 5% is positive for all companies using imported coal. Again providing huge impetus to the infrastructure and affordable government housing projects is a big plus for the sector as it will lead to increased demand for cement.

(In Million Tonnes)	Mar-12	Mar-11	YoY	Feb-12	MoM	FY12	FY11	YoY
<b>PRODUCTION</b>								
ACC	2.30	2.19	5.02%	2.14	7.48%	24.12	21.90	10.14%
Ambuja Cements	2.19	1.95	12.28%	1.99	10.09%	21.46	20.37	5.36%
Jaiprakash Associates*								
Ultratech Cement	3.92	3.75	4.59%	3.47	13.09%	39.64	38.47	3.05%
<b>DISPATCHES</b>								
ACC	2.34	2.18	7.34%	2.15	8.84%	24.17	21.84	10.67%
Ambuja Cements	2.18	1.94	12.38%	2.00	8.90%	21.72	20.49	6.01%
Jaiprakash Associates	2.08	1.57	32.48%	1.99	4.52%	19.31	15.91	21.37%
Ultratech Cement	4.02	3.78	6.22%	3.52	14.16%	39.76	38.39	3.56%
Top 4 Players	10.61	9.47	12.09%	9.66	9.90%	104.96	96.63	8.62%

\* Data not available

Source: SPA Research

### Uptrend in cement prices continue

All India cement prices have increased by INR 10-30/bag in the last month and are currently hovering in the range of INR 290-300/bag. This increase was mainly done to pass on increased cost owing to hike in rail freight and excise.

Prices in the northern region improved by ~INR 15/bag and are currently hovering at ~INR 280/bag.

Cement prices in Eastern region rose by INR ~10/bag with prices hovering near its peak levels of ~INR 310/bag, due to logistical issues. Strong demand and inadequate availability of wagon resulting in lower supply of cement are the main reason behind continuous increase in prices over the last couple of months. Bihar continues to witness rapid growth in government led projects leading to surging demand for cement. With the demand uptick, prices are expected to remain strong in coming weeks.

Central region too witnessed an increase of ~INR 20/bag on account of the 20% freight hike recently announced by the Indian Railways. Prices in UP witnessed an uptick of ~INR 25/bag and with elections coming to an end, we expect a pick-up in construction activity in the region.

Western region once again witnessed maximum price increase of ~INR 25/ bag driven by better demand in Gujarat due to mass housing schemes in light of state elections in 2012. Currently cement prices are hovering in the range of INR 265-280/bag. We expect the demand momentum to continue on the back of government-led projects and housing demand growth.

After holding firm prices for almost 5-6 months, southern region witnessed a price increase of ~INR 10/bag. We expect prices to remain firm going ahead due to production discipline and improving demand scenario across the region.

Given the sharp increase witnessed in cement prices in last month, we expect prices to remain stable going forward.

### Hike in railway freight rates

After increasing the busy season charge in Q3FY12 from 7% to 10% and the development surcharge from 2% to 5%, the railways have again gone for another round of freight rate increase by 19-33%, with effect from March 6. This has resulted in weighted rail freight increase of ~20%. As the industry transports ~45% of its total production through railways, the freight cost for the industry is expected to increase by ~10%. Also the industry sources ~55% of its coal requirement from domestic linkage coal for which preferred mode of transportation is railways, thereby resulting in further increase of 2-3% in power & fuel cost. Cement manufacturers have already hiked prices by at least INR 10/bag to offset the cost increase.

### Holcim expects India's construction market to be No. 3 after US, China

Switzerland-based cement maker Holcim, one of the top players in the global cement industry and having presence in the country through two established brands - ACC and Ambuja Cements, expects the Indian construction market to more than double by 2020. The Indian construction market will replace Japan as the third largest, after China and the US, by 2020, during which, emerging markets will outweigh mature markets.

At \$360 billion, India accounted for 5% of the \$7.2-trillion global construction market in 2010. However, by 2020, India is likely to capture a 7% market share, at \$840 billion, of the \$12-trillion global market. Holcim, currently has a capacity of ~57 mtpa in India, and is ahead of domestic giant Aditya Birla Group's UltraTech Cement (52 mtpa).

### Growth momentum to continue

We expect cement demand to remain upbeat as the industry is heading towards the pre-monsoon, which is traditionally a period of increased demand. Moreover the Union Budget's focus on developing infrastructure and on affordable and rural housing should provide a boost to cement demand over the next few quarters. We maintain our demand growth estimate of 8% in FY13.

### Monthly Dispatch growth trend - Low base effect depicting volume growth at elevated levels

YoY growth (%)	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
FY10	13.1%	10.8%	12.9%	10.1%	17.2%	6.2%	7.5%	8.6%	11.6%	12.7%	6.5%	9.6%
FY11	8.8%	7.9%	2.8%	1.6%	2.2%	6.9%	17.3%	-5.5%	-2.9%	2.4%	7.8%	5.5%
FY12	-0.2%	-0.2%	2.4%	10.1%	6.4%	1.4%	0.6%	20.3%	14.0%	9.7%	9.7%	12.1%*

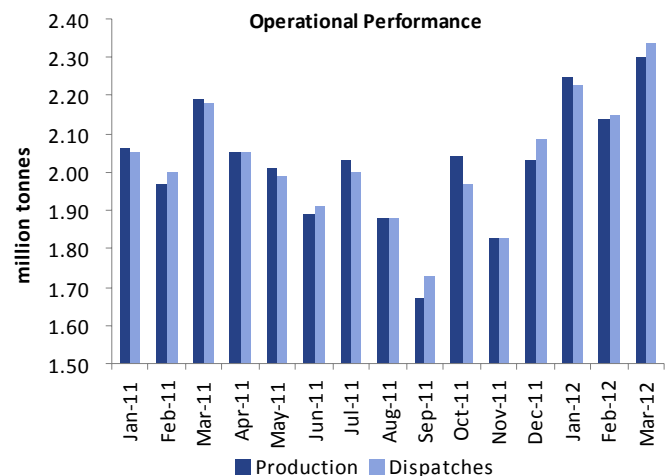
\*Growth rate of Top 4 players

Source: SPA Research

**ACC**

(In Million Tonnes)	Mar-12	Mar-11	YoY	Feb-12	MoM	FY12	FY11	YoY
Production	2.30	2.19	5.02%	2.14	7.48%	24.12	21.90	10.14%
Dispatches	2.34	2.18	7.34%	2.15	8.84%	24.17	21.84	10.67%

- ACC plans to invest around INR 33 bn to increase cement capacity by 5 mtpa from the current 30 mtpa. It plans to increase cement capacity at Jamul, Chhattisgarh, and set up two grinding units - of 1 - 1.5 mtpa capacity each in West Bengal and Singri in Assam. This additional capacity is set to commission in fiscal 2015. In addition, the company has also started preliminary works at its four coal blocks in Madhya Pradesh and production may start in three to four years.  
**Captive coal production will enable the company to bring down its costs, as the spurt in coal prices over the past two years has weighed on its margins substantially.**
- ACC's cement production and dispatches during the month of March 12 increased 5.0% YoY and 7.3% YoY to 2.30 mt & 2.34 mt respectively. Sequentially dispatches witnessed a growth of 8.8%.
- ACC has recorded superlative growth in dispatches in FY12 on the back of increased capacity. On a cumulative basis the company registered a volume growth of 10.7% on YoY basis.
- Capacity utilization improved by 433 bps YoY to 90.5% in March 12. Cumulatively it improved by 794 bps to 86.3%.
- With the commissioning of its Chanda and Wadi plant, the company has also increased its pan-India market share to ~11%.

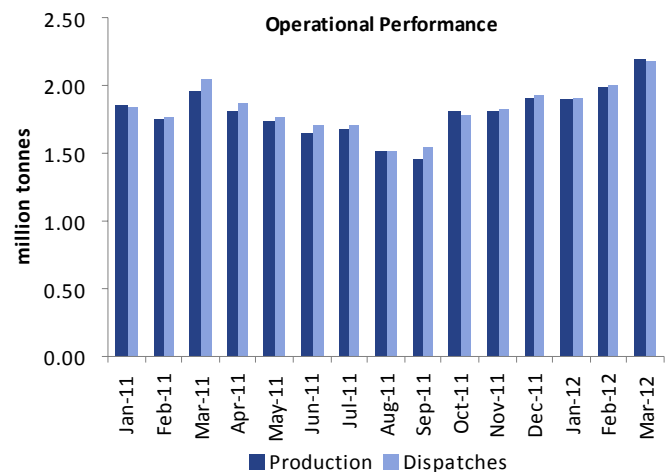


Source: SPA Research

**Ambuja Cement**

(In Million Tonnes)	Mar-12	Mar-11	YoY	Feb-12	MoM	FY12	FY11	YoY
Production	2.19	1.95	12.28%	1.99	10.09%	21.46	20.37	5.36%
Dispatches	2.18	1.94	12.38%	2.00	8.90%	21.72	20.49	6.01%

- Ambuja Cement reported a better than expected performance in last month as its dispatches grew by 12.4% YoY to 2.18 mt as against 1.94 mt in the corresponding month previous year.
- On month on month basis, it reported highest volume growth of 8.9% among the top 4 players. This superlative performance is mainly due to its dominant position in fast growing western region, where it sells ~40% of its total output.
- On a cumulative basis (April-Mar 12), the company registered volume growth of 6.0% to 21.72 mt.
- We believe momentum in the volume growth to continue for coming couple of months due to improvement in the demand scenario
- Capacity utilization improved by 1071 bps YoY & 897 bps MoM to 97.9% in Feb 12. On a cumulative basis it improved by 442 bps to 87.0%.

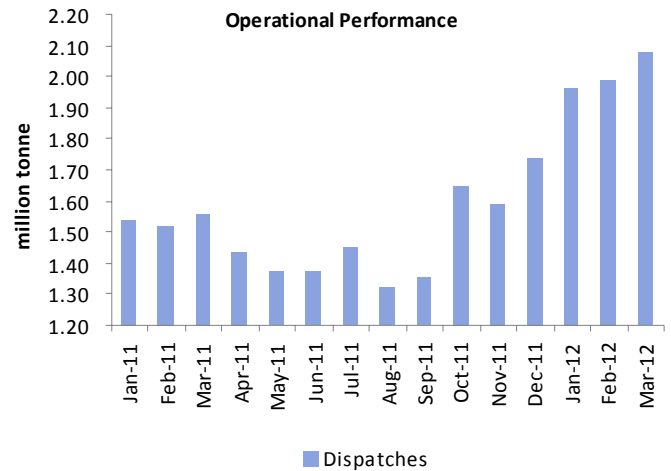


Source: SPA Research

**Jaiprakash Associates**

(In Million Tonnes)	Mar-12	Mar-11	YoY	Feb-12	MoM	FY12	FY11	YoY
Dispatches	2.08	1.57	32.48%	1.99	4.52%	19.31	15.91	21.37%

- Jaypee Group, which picked up a majority stake in Andhra Cements in November last year, is in final stages of reopening the Andhra Cement Company (ACC) plant at Dachepalli, which has a production capacity of 1.5 million tonnes. The new management has agreed to clear 75% of the wage dues and is expecting to sign an agreement with the workers' unions in April. The plant was closed in Oct 2010 after the previous owner, Dunken Goenka Group of Kolkata, declared a lockout leaving workers and their families in the lurch.
- Jaiprakash Associates continued its robust growth momentum by registering a YoY volume growth of 32.5% during the last month and the dispatches stood at 2.08 mt.
- Sequentially on MoM basis, the company reported a subdued growth of 4.5% in dispatches.
- Its cumulative sales during FY12 improved by 21.4% YoY to 19.31 mt.
- The growth momentum is expected to continue as another 5 mpta cement plant near Jaggayyapeta in Krishna District, Andhra Pradesh, will commence production from the current month. The plant will cater mainly to southern markets.

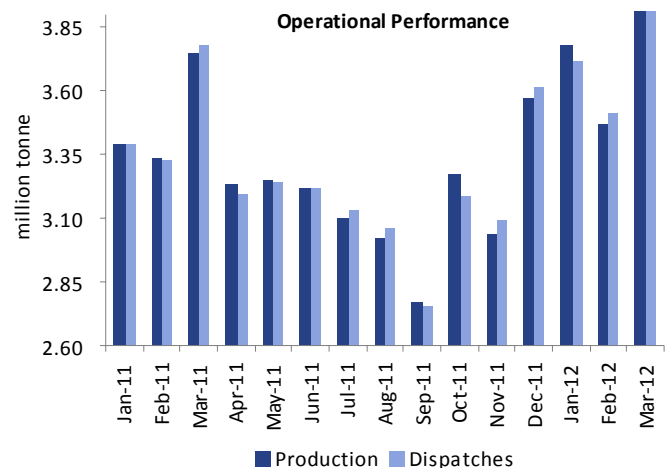


Source: SPA Research

**Ultratech Cement**

(In Million Tonnes)	Mar-12	Mar-11	YoY	Feb-12	MoM	FY12	FY11	YoY
Production	3.92	3.75	4.59%	3.47	13.09%	39.64	38.47	3.05%
Dispatches	4.02	3.78	6.22%	3.52	14.16%	39.76	38.39	3.56%

- Ultratech, which derives ~25% of its volumes from southern region, continued to witness a higher growth in its sales volumes for the fourth consecutive month. This coupled with 7.3% YoY growth in industry-wide dispatches in Feb 12, indicates that situation is improving in the southern region.
- Production grew by 4.6% and dispatches growing by 6.2% on a YoY basis to 4.02 mt in March 12. Sequentially, it recorded a decline of 14.2% in dispatches.
- However, on cumulative basis, growth in dispatches has been modest at 3.3%.
- Capacity utilization too improved by 315 bps YoY to 85.3% in Feb 12. Cumulatively it improved by 246 bps to 87.8%.



Source: SPA Research

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