

# Has the tide finally turned for cement demand?

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The Ambuja Cements Ltd stock surged more than 2% on BSE on Tuesday, reacting to the company's December-quarter earnings.

A year-on-year growth of 16% in stand-alone cement sales volume was the highlight of the results. Sales volume for the quarter stood at 5.87 million tonnes.

As the accompanying chart shows, many cement producers reported double-digit volume growth in the December quarter when compared to the year-ago

period.

Does that mean there is finally light at the end of the tunnel for cement demand, or is it just a favourable base effect?

To a certain extent, a low base due to demonetization did help cement sales volume growth look better in the three months ended December. Increased infrastructure spending by the government also helped, but it is a quarter or two early to call this a demand revival.

Some regional cement companies, especially in east India, did benefit from capacity additions. For some others like UltraTech Cement Ltd, volume jumped more than 30%, helped by the

## Low base effect

Cement volumes surged in the December quarter, aided by a low base.

	Sales volume (in million tonnes)		Year-on-year change (in %)
	Q3 FY17	Q3 FY18	
ACC	5.45	6.92	26.97
Ambuja Cements	5.09	5.9	15.91
UltraTech Cement	11.73	15.85	35.12
Ramco Cements	1.99	2.27	14.07
JK Cement	1.93	2.32	20.21
JK Lakshmi Cement	1.83	2.11	15.30
HeidelbergCement	1.05	1.22	16.19
Dalmia Bharat	3.6	4.15	15.28
Birla Corp.	1.6	3.1	93.75

Source: Reliance Securities

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integration of the cement plants acquired from the Jaypee Group last year.

Since this is a pre-election

year, cement demand may continue to get support from government spending on infrastructure and related activities.

But housing demand, which contributes around 60% to overall cement demand, still remains weak.

To be sure of a full-blown demand recovery for the sector, realizations too have to be sustained.

A dealer channel check by Kotak Institutional Equities showed that all-India cement prices increased by Rs5/bag on a monthly basis to Rs328/bag in January 2018, still lower than the August 2017 levels (Rs339/bag) and yet to reflect the usual seasonal strength. One cement bag weighs 50kg.

"As per DIPP (Department of Industrial Policy & Promotion) data, industry volumes increased by 17% y-o-y (year-on-year) in November 2017. However, the strong growth should be seen in

the context of a low base as volumes in the year-ago-period were affected by currency demonetization in India; industry volumes in November 2016 had increased by only 0.7%. We continue to expect strong industry growth volume numbers over the next few months (until April 2018) due to a favourable base," said the broking firm.

Apart from prices, capacity utilization for the sector, currently at around 60-65%, also has to improve.

Meanwhile, the cost environment continues to be challenging for cement companies due to higher fuel and freight costs, and remains a downside risk to their fiscal year 2019 earnings.

Given these concerns, the expensive valuations of cement stocks need to correct.