

Cement: Update

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Cement production in the first quarter saw de-growth of 3.9%. Cement production stood at 72.67 million tonnes in Q1FY17 vs 75.7 million tonnes in Q1 FY 16. Cement production in the country peaked in Q4FY16 at 78.47MT. For the period April'17 to July'17, the production has declined by 3.5% to 95.37 million tonnes vs 98.87 million tonnes during the same period last year.

Segment demand:

- Real estate and housing which constitutes two-third of the cement consumption has seen very low inventory addition as claimed by various industry sources. We expect the same to persist as clarity on RERA implementation would continue to evolve during the coming quarters. The newly implemented Act (RERA) along with the regulations and compliances is making developers cautious.

- Infrastructure previously contributed for 13% of the total consumption in India. With increased Government spend and low activity in real estate, Infrastructure's share in cement consumption would inch upwards of 15% during the current fiscal year. Roads and Public infrastructure development is expected to push the demand for cement in the two coming quarters.

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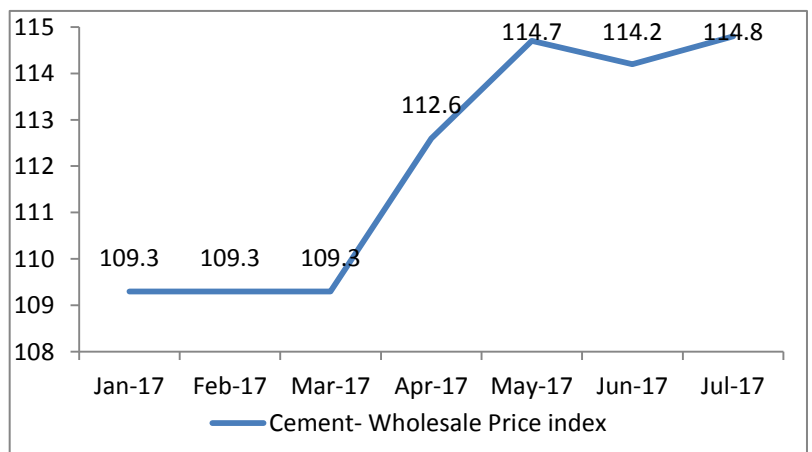
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Source: Dept. Of Industrial Policy & Promotion

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GST and impact on prices:

- GST implemented on 1st July, 2017, led to reduction in prices since previous regime taxed cement at 30-31% vs 28% under the GST regime. The same is being passed on to the customers. The wholesale price index shows price change beginning Q1 FY17. We expect weak demand to keep the prices in check at current levels and be range bound for the coming quarters.

Demand outlook:

- Demand is expected to be regional with higher demand from Eastern followed by Northern region.
- “Housing for all”, National Highways and other public Infrastructure would form the backbone for demand in the Eastern region.
- In North India- Uttar Pradesh, Punjab and Haryana would be the regional growth drivers. Uttar Pradesh and Punjab owing to new government formation in the first half of the year, would witness infrastructure development push. Favorable monsoons leading to demand in agriculture based rural markets would be another major uptick for cement consumption in the Northern states.

Cement Production Figures					
Period	2015-16	2016-17	2017-18	% Growth	
	In million tonnes			2016	2017
Q1	71.57	75.64	72.67	5.6%	-3.9%
Q2	66.07	68.24	--	3.2%	--
Q3	67.35	66.78	--	-0.8%	--
Q4	78.47	69.15	--	-11.8%	--

Source: Eight Core-Sector Report

Concluding remarks:

- We expect the cement production to remain subdued in the coming quarter. We see overall recovery starting Q3 FY17.
- Subdued activity in the real estate segment would impact the overall demand and this would keep the prices and price volatility under check.
- With RERA implementation to be completed across all major markets by the end of Q2 FY17 along with clarity on the impact of GST on the realty sector, we expect construction activity to pick up gradually post Q2FY17. Affordable housing and various Government lead housing schemes would lead demand recovery for cement from real estate segment.
- Infrastructure project implementation, led by Smart City Projects across 60 cities and national highway projects would be major demand drivers in infrastructure segment. Implementation in the first batch of 20 smart cities has already taken off in stages, and for the remaining 40 smart cities chosen in September 2016, we expect the project implementation to begin Q3 FY17 onwards which should drive demand for cement.
- Demand from other segments namely- industrial segment demand would remain subdued while that from commercial segment is expected to remain stable.

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