

Realisation improvement remains elusive for cement companies

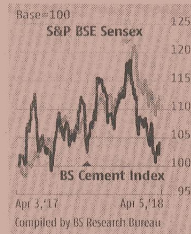
Rising pet coke prices, transportation costs may limit profitability improvement

UJJVAL JAUHARI

Stock prices of cement majors such as UltraTech, ACC, Ambuja and Shree Cement have corrected 13-18 per cent since their January highs. This comes at a time the broader markets are down 5-6 per cent from their peaks touched in late January.

The sharp correction in cement stocks has surprised investors as January-March is a seasonally strong quarter. The underperformance can be attributed to cement realisations not gathering steam even as volumes moved north.

Recent channel checks by analysts suggest that per 50 kg bag average, all-India cement prices during the March quarter (Q4) have declined 0.3 per cent sequentially and by a per cent year-on-year. This remains a cause for concern as impetus to profitability will only be provided by improvement in realisations. Fuel and transportation costs have



continued to rise regularly and with persisting cost pressures, cement companies may not see profitability improvement in Q4. The cost pressures are being led by rising fuel costs, as logistics costs, too, have been on the rise.

Spot pet coke prices are 20 per cent higher than the December quarter average and truck rentals are also 8-9 per cent up sequentially say analysts. Credit Suisse says the total impact of pet coke and freight is ₹125 a tonne sequentially.

However, they expect full-quarter volume growth to be in the range of 6-7 per cent. On the positive side, sand availability issues that had been affecting demand,

particularly in Uttar Pradesh, have improved and Bihar is witnessing gradual improvement, say analysts such as Binod Modi at Reliance Securities. This is likely to support some realisation improvement in the central region, as East continues to see strong momentum. But, other parts of the country still continue to disappoint on realisations.

West and North India, too, are being watched with optimism for realisation recovery. Analysts feel as demand improves, cement companies try and gain market share and push up volumes first, while price hikes are taken later.

The other reason for price hikes not being taken could be that the government has been vigilant on cement prices say analysts, though Modi says he expect prices to witness an up move in the coming months due to rising cost pressures and sustained demand growth, leading to higher utilisation.