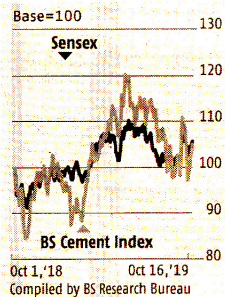


## THE COMPASS

# ACC numbers may provide relief to cement stocks

**Profitability, declining costs are positives, but demand revival key to any upside**

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Cement maker ACC's decent performance amid challenges during the July-September quarter lifted Street sentiment, which has been subdued in the past three months due to lacklustre demand for this key construction material. As the stock of ACC closed 1.5 per cent higher on Wednesday, UltraTech Cement, Shree Cement, and Ambuja Cement, too, gained up to 2.5 per cent.

ACC did face challenges on the volume front, while realisations declined sequentially. Yet, it was able to report an improvement in per tonne profitability aided by cost con-

trols. Realisations, which have been declining regularly, however were higher on a year-on-year (YoY) basis and have helped cement firms.

The industry has taken a price increase of ₹50-70 per 50-kilogram (kg) bag around March. Thus, average prices per 50-kg bag during the September quarter at ₹354, though lower than the April-June quarter's ₹367, are ahead of ₹331 in the year-ago quarter.

A clear positive though is that raw material prices are on a decline. The quarter saw a 13 per cent YoY and 10.5 per cent sequential decline in pet-coke prices, while diesel prices, too, have softened. Thus, companies are getting

respite on energy and freight costs, and more benefits should be seen in the subsequent quarters. While these factors are supportive and have helped cement stocks rebound from their recent lows, demand revival is crucial to drive volume growth.

The cement demand slowdown has been a cause for concern since the June quarter. The June quarter felt the weight of the general elections — when government-led spending on infrastructure and other construction activities declined — labour availability, and credit squeeze.

The September quarter thereafter has remained affected due to extended

monsoon, while the start of the festive season is also likely to weigh on cement demand. Against this backdrop, demand growth and volume estimates for the industry have been lowered. Rating agency ICRA had said cement demand growth will slow down to around 7 per cent in 2019-20 (FY20), compared to 13 per cent during 2018-19. Analysts at Edelweiss recently said that with the first half of FY20 demand being flat, recovery in the second half (from November 2019) will be a key event to watch out for. Even as they are hopeful, they estimate industry demand to grow 3-4 per cent in FY20.