



Infomerics Ratings

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CREDIT RATING AGENCY

Mr. Vipin Malik,
(Chairman, Infomerics Ratings)

Dr. Manoranjan Sharma
(Chief Economist)

Mr. Sankhanath Bandyopadhyay
(Economist)

INDUSTRY OUTLOOK

CEMENT INDUSTRY: TRENDS AND PROSPECTS

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Introduction

It is maintained that cement industry is one of the pivotal industries in India which kept on pedalling even in harsh times like COVID. The Indian cement industry is the second largest producer of cement in the world after China and accounts for more than 7 per cent of the global installed capacity. [1] India's per capita cement consumption lies in the range 200-250 kgs which is low as compared to other counterparts like Korea or China as highlighted in the table (Table 1) below. This goes to show that there is a huge potential for cement industry to grow.

Global Scenario

The export-import figures (Figure 1 below) seem to be robust for the past few years. Except for a moderate dip in FY20, trading has been robust. Net exports have also been continuously rising except for the moderate in FY20 . [2]



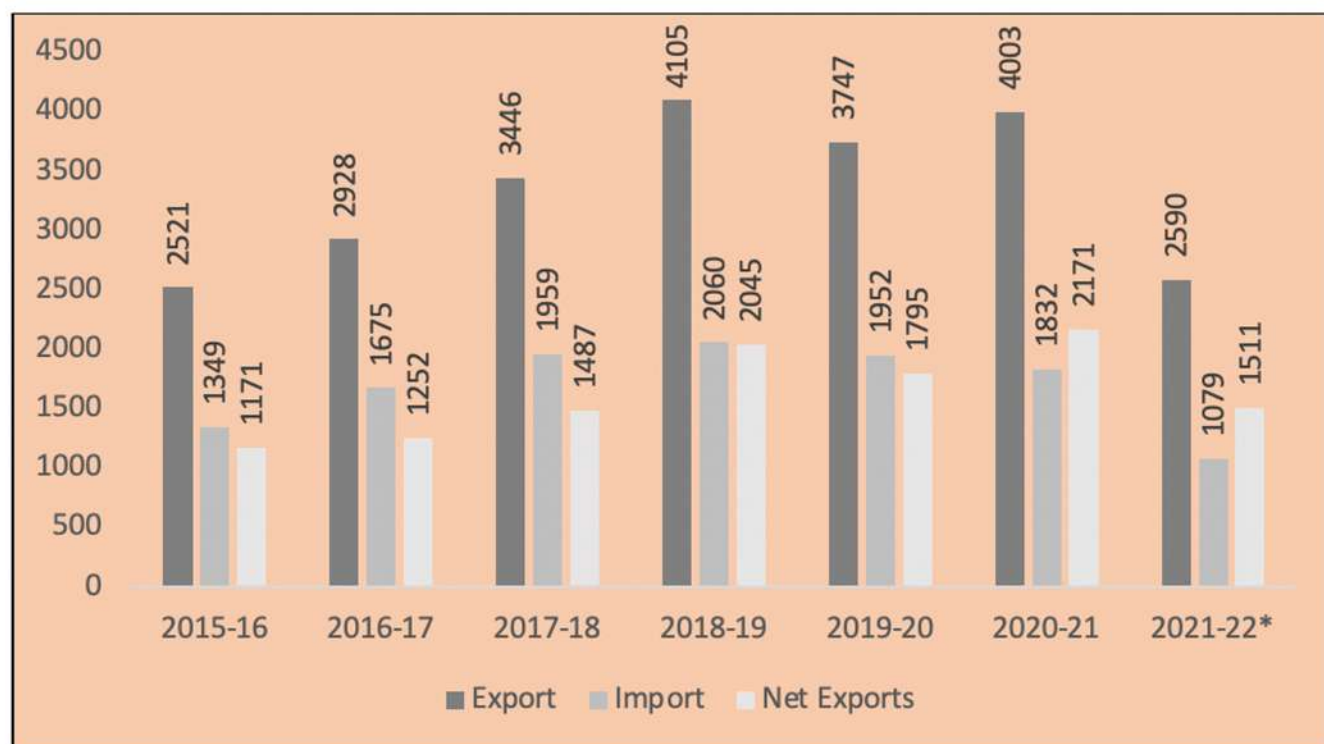
Table 1: Per Capita Consumption of Cement (in Kg) in various Countries

Country	Amount
China	1550-1650
Korea	1000-1100
Vietnam	850-900
Egypt	720-770
Turkey	460-510
Russia	360-410
USA	280-220
Indonesia	250-300
Brazil	230-280
India	200-250

Source: Indian Cement Industry, Systematix Institutional Research (September 2021)

As far as FY22 is concerned, H1FY22 has performed well. A relatively low festive season in FY22 hasn't bode well for the industry with other risks (discussed below). Q4FY22 has brought about uncertainty in the short run for the cement industry and how will this impact trade would be a watch.

Figure 1: Import-Export of Cement# (₹ crore)



Note – # Panel Cement, Clinkers and Asbestos Cement Products. * Till September 2021.

Source: <https://dashboard.commerce.gov.in/commercedashboard.aspx>

The top 10 exporting destination for cement is given in the table below (Table 2). As can be seen, USA occupies a preponderant share in the export basket of Indian cement. More than half of the cement exported in 2021-22 until now has been exported to USA. As for imports (Table 3), UAE emerged as the top source nation for importing cement. Unlike exports, no nation holds a preponderant share when it comes to imports.

Table 2: Top 10 Exporting Destination (2021-22*) for Cement# (₹ crore)

Country	Export
U S A	1529
SRI LANKA DSR	255
BANGLADESH PR	252
NEPAL	114
U ARAB EMTS	65
U K	49
SAUDI ARAB	36
NIGERIA	31
QATAR	22
CANADA	20

Note – * Till September 2021. # Panel Cement, Clinkers and Asbestos Cement Products.
Source: <https://dashboard.commerce.gov.in/commercedashboard.aspx>

Table 3: Top 10 Source Nations for Import (2021-22*) of Cement# (₹ crore)

Country	Import
U ARAB EMTS	179
CHINA P RP	149
TURKEY	100
GERMANY	87
OMAN	79
BANGLADESH PR	56
SLOVENIA	48
BHUTAN	47
IRAN	38
SPAIN	32

Note – * Till September 2021. # Panel Cement, Clinkers and Asbestos Cement Products.
Source: <https://dashboard.commerce.gov.in/commercedashboard.aspx>

Institutional Initiatives

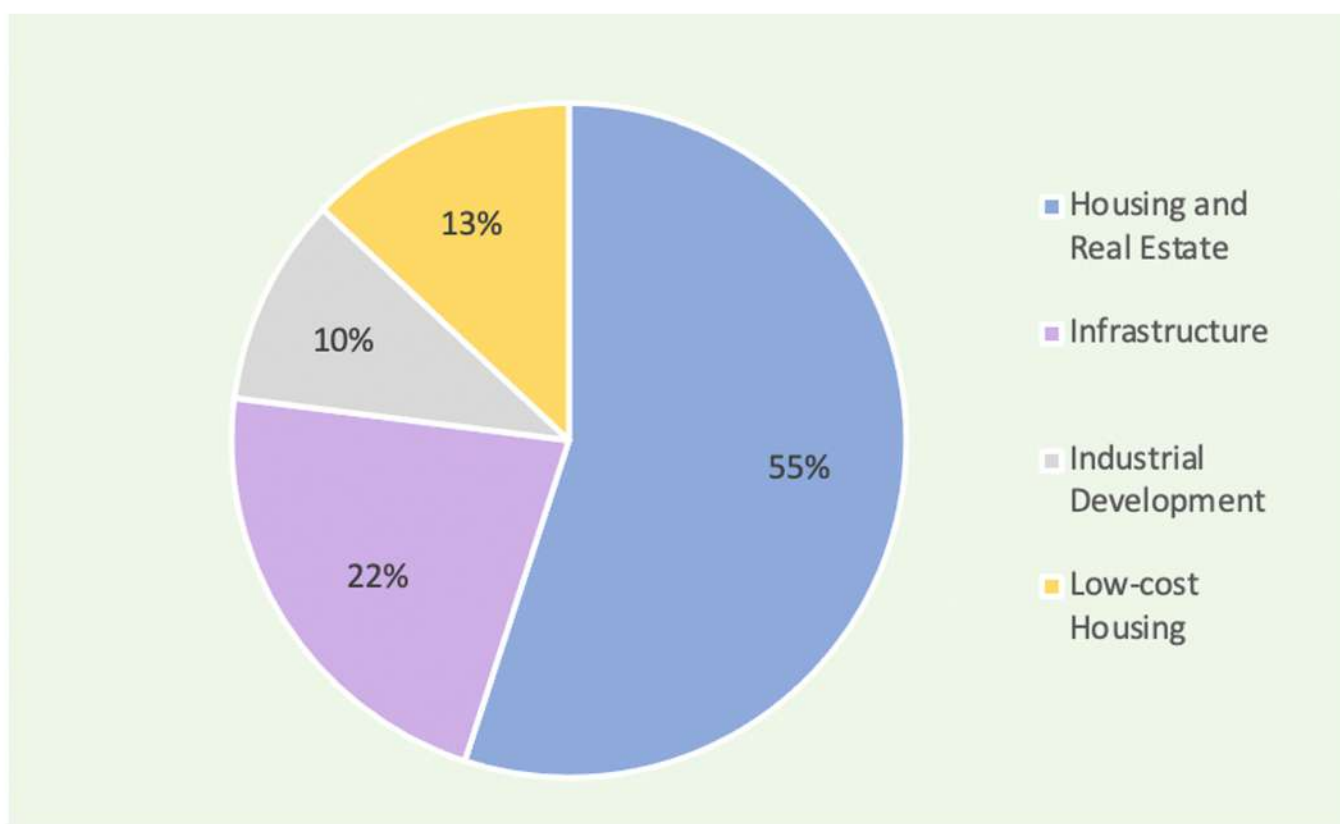
National Infrastructure Pipeline

Capital expenditure (capex) of ₹5,43,559 crore is designated to be provided by the Centre and States combined under the “National Infrastructure Pipeline (NIP) over the period 2020-25” under affordable housing. This makes the share (out of ₹19,19,267 crore allocated to the broad head ‘Urban Sector’) of affordable housing about 28 per cent,[3] aimed at providing a boost to the real estate sector. Moreover, about 88 crore people are expected to live in urban areas in India by 2051 as against the current 46 crore people. [4] Therefore, this is likely to increase the demand for residential segment along with urban housing schemes by the government which would be salubrious for the industry.

Rising Housing Demand

With receding second wave of the pandemic the housing demand saw an upsurge in the country whereby residential housing demand has risen across the country. Also, with greater and improved metro connectivity (both existing and in pipeline) have attracted people to find a residential space in the metropolitan cities.[5] With slew of residential projects and enhanced transport network, more people are expected to invest in housing. Greater housing demand makes conducive conditions for cement industry to grow. Moreover, interest rates on housing loans have dropped and the current interest rates are at historically low levels which will increase the affordability of new houses. With about 55 per cent of the cement demand coming from the housing and the real estate sector (see Figure 2 below), a push to housing and the real estate sector would be catalyst in the growth of cement industry.

Figure 2: Percentage share of Cement Demand in FY21



Source: India Brand Equity Foundation (IBEF). Available at <https://www.ibef.org/industry/cement-india.aspx>

PM Gati Shakti

The recently launched plan (October 2021) with an outlay of Rs.100 lakh crore envisages to incorporate the infrastructure schemes of various Ministries and State Governments like Bharatmala, Sagarmala, inland waterways, dry/land ports, UDAN etc. On the other hand, economic zones like textile clusters, pharmaceutical clusters, defence corridors, electronic parks, industrial corridors, fishing clusters, agri zones will be covered to improve connectivity & make Indian businesses more competitive. Therefore, with such huge outlay and massive outreach, it is surely to benefit the cement industry both directly and indirectly.

In context to the above initiatives, some of the recent developments by cement players are given below:-[6]

- UltraTech Cement has begun mining coal at its Bicharpur coal mine in Madhya Pradesh. The producer will use the coal in its cement production. UltraTech Cement acquired the 29 MT Bicharpur coal mine at auction in 2015. Apart from this, UltraTech Cement plans to increase the production capacity at its Maihar cement plant by 50 per cent.
- Dalmia Cement has presented its plans for its planned Bokaro, Jharkhand, grinding plant expansion. The company said that the plant would increase local employment and agreed to compensate communities impacted by its operations.
- Saurashtra Cement and Gujarat Sidhee Cement have agreed to merge into a single entity. Their respective boards of directors approved the plans on 30 December 2021.
- Shree Cement has announced investment of nearly Rs.1500 crore in the new plant coming up in Guntur district, Andhra Pradesh.

Industry Risk

Supply Chain Management

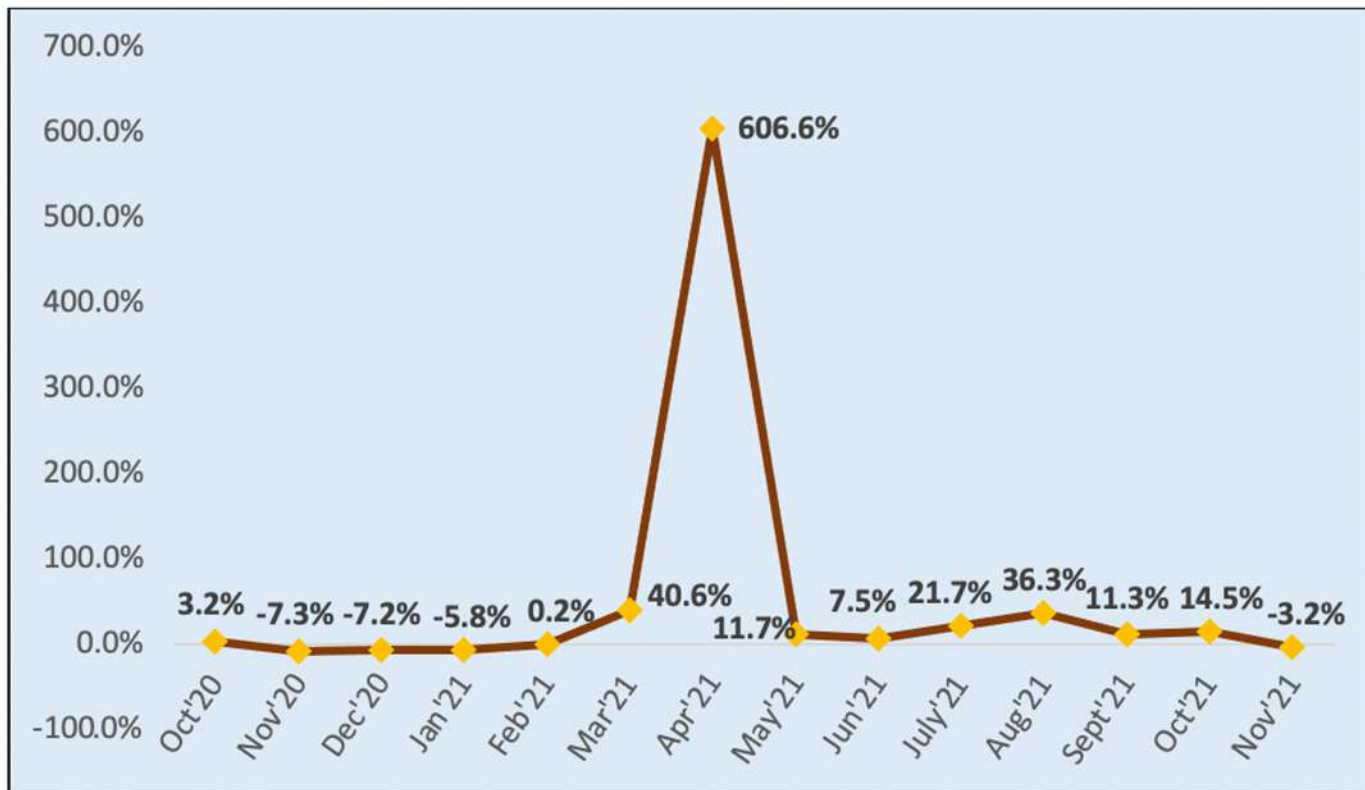
Industry body South India Cement Manufacturers' Association (SICMA) has urged the Union government to resolve the demand-supply mismatch between the South India and rest of India. As per the industrial body, which accounts for roughly 40 per cent of the cement production, the government needs to move the surplus cement to deficit regions via telescopic railway freight. The body also suggested to impose higher duty on import of clinker and cement like other countries who also impose anti-dumping duties on cement imported from India. [7]

Input Costs remain volatile

The volatility in pet coke prices has been a reason of persistent concern for cement manufacturers whereby it is argued that coal and pet coke prices nearly doubled in Q2FY22.[8] This increase is likely to cause an increase in cement prices to as high as Rs. 60 per bag.[9] On the other hand, imported coal/petcoke prices have seen some moderation in certain parts and for some companies. The above, can be argued, is one of the reasons for reduced cement production as per the latest data available. Cement production (weight: 5.37 per cent) increased by 14.5 per cent in October 2021 over October 2020.

However, it shrunk by 3.2 per cent in November 2021 over November 2020. This can be attributed to rising costs and unstable demand. The same is given in the figure below (Figure 3). The spike in April 2021 is mainly due to low base effect of 2020 stringent lockdown.

Figure 3: Cement Production Growth Rates (on Y-o-Y basis in per cent)



Source: Index of Eight Core Industries (October 2021), Office of Economic Adviser. Available at <https://eaindustry.nic.in/>

Volume decline due to unseasonal rainfall



Cement demand remained volatile in Nov-Dec'21 due to disrupted rainfall, a sand crisis in certain markets in Uttar Pradesh as well as eastern part of India. Cement prices also declined in the face of muted demand while earlier it was tried of around INR 20-50 per bag. Profitability to be impacted by higher freight/energy costs.

The Way Forward

The current surge in the Omicron variant has led to uncertainty in the near future. However, all preliminary results point out that the variant is mild and would advance and retard quickly. The African experience, where the variant originated, also shows the same. Therefore, we expect Q4FY22 to witness a downfall in the cement industry both in terms of production and consumption given the highly contagious virus and backlog of other industry risks discussed. Average realisation of Grey cement is likely to be improved marginally, except for the eastern part of India. However, if the pandemic recedes within the expected time of roughly 50-60 days, then with the onset of FY23 prospects look bright for the cement industry given the huge investment plans already announced by both – the companies and the government. The key is project execution at fast pace so that volume could see reasonable expansion due to higher demand offtake. However, it will depend largely on how the Omicron variant can be contained in the medium-term.

ENDNOTES

1. <https://www.ibef.org/industry/cement-india.aspx>
2. As per a report by Reserve Bank of India, this was “on account of waning business confidence” apart from construction activity which remained subdued in 2019-20 “as a large inventory overhang coupled with stressed liquidity conditions restrained new launches”. Read full report at <https://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1286>
3. National Infrastructure Pipeline NIP Vol.2&3-B.
4. “Indian Real Estate Sector to add \$800 Billion by 2030”, Financial Express (22nd July 2021). Available at <https://www.financialexpress.com/industry/indian-real-estate-sector-to-add-800-billion-by-2030/2295160/>
5. “Dashing into a bright future”, The Hindu (24th December 2021). Available at <https://www.thehindu.com/real-estate/dashing-into-a-bright-future/article38026187.ece>
6. <https://www.globalcement.com/news/itemlist/tag/India>
7. “SICMA requests FM to facilitate movement of cement from southern states to deficit regions”, ET Realty (27th December 2021). Available at <https://realty.economictimes.indiatimes.com/news/allied-industries/sicma-requests-fm-to-facilitate-movement-of-cement-from-southern-states-to-deficit-regions/88515338>
8. “UltraTech Q1: Profit Flat at ₹1310 Crore Owing to Sharp Rise in Coal, Pet Coke Prices, Revenues up 15.7%”, Free Press Journal (18th October 2021). Available at <https://www.freepressjournal.in/business/ultratech-q1-profit-flat-at-rs-1310-cr-owing-to-sharp-rise-in-coal-pet-coke-prices-revenues-up-157>
9. “Cement manufacturers in the South flag spike in costs”, Hindu Business Line (8th October 2021). Available at <https://www.thehindubusinessline.com/economy/cement-manufacturers-in-the-south-flag-spike-in-costs/article36885611.ece>

Infomerics Valuation And Rating Pvt. Ltd.

**SEBI REGISTERED / RBI ACCREDITED / NSIC EMPANELLED
CREDIT RATING AGENCY**

CORPORATE OFFICE

Mr. ML Sharma

Mobile No.: +91 9619112204, E-mail: mlsharma@infomerics.com

Office No.: 022-62396023; 022-62396053

Address: Office No. 1102-1104, B wing, Kanakia Wallstreet, Off Andheri Kurla Road,
Andheri East, Mumbai - 400093.

EAST INDIA OFFICE

Mr. Avik Sarkar

Mobile No.: +91 8929802903, E-mail: asarkar@infomerics.com

Office No.: 033-46022266,

Branch Office Address: Flat 10A, 10th Floor,

“Chatterjee International Centre” 33A, J. L. Nehru Road,

Near Park Street Metro Station, Kolkata – 700071

WEST INDIA OFFICE

Mr. Dheeraj Jaiswal

Mobile No.: +91 8928802910, E-mail: dheeraj@infomerics.com

Branch Office Address: #1102/A, Synergy Tower, Prahaladnagar, Corporate Road

Nr. Vodafone House, Off S.G. Highway, Ahmedabad - 380015

SOUTH INDIA OFFICE

Mr. D. Suresh Pai

Mobile No.: +91 8929802937, Email: dspai@infomerics.com

Address: 501, 5th Floor, Prestige Meridian – 1, 29, M G Road,

Bangalore – 560001, Karnataka, India



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