



Indian Cement Industry

Indian Cement Industry on growth trajectory. . .

The Cement industry has continued its growth trajectory over the past seven years. Domestic cement demand growth has surpassed the economic growth rate of the country for the past couple of years. Over the past five years (FY03-07), cement demand has grown at a CAGR of 8.37% higher than the CAGR of supply at 4.84%. Demand for cement in the country is expected to continue its buoyant ride on the back of robust economic growth and infrastructure development in the country.

The key drivers for cement demand are real estate sector, infrastructure projects and industrial expansion projects. Among these, real estate sector is the key driver and accounted for almost 55% of cement demand in FY 07.

During the period FY 03 – 07, capacity additions in the country (30.6 mn tonnes) were at a slower rate compared to demand growth leading to higher average capacity utilization rates from 81.3% in FY 03 to 93.8% in FY 07. This exerted pressure on average prices which have increased from Rs. 156 per bag in FY 03 to Rs. 216 per bag in FY 07. In December 2007, prices stood at Rs. 245 - Rs. 250 per bag.

Low capacity addition coupled with higher utilization rate also led to increase in proportion of blended cements in product mix. Blended cement accounted for 68% of product mix in FY 07 as compared to 49% in FY 03.

Cement is a bulky commodity and cannot be easily transported over long distances making it a regional market place, with the nation being divided into five regions. Each region is characterised by its own demand-supply dynamics. The Southern region dominated the cement consumption at 44.5 mn tonnes in FY 07, accounting for about 30% of total domestic cement consumption. During FY 03-07, Southern region has witnessed highest CAGR of cement demand at 10.4% followed by Northern and Eastern regions at 8.9% and 9%, respectively.

Over the past five years, cost of cement production has grown at a CAGR of 8.4%. The producers have been able to pass on the hike in cost to consumers on the back of increased demand. Average realizations have increased from Rs. 1,880 per tonne in FY 03 to Rs. 3,133 per tonne in FY 07, at a CAGR of 13.6%, which has resulted in higher profit margins of the industry.

To reduce the cost of production, the industry is increasing its focus on captive power generation. Proportion of cement production through captive power route has increased over the years. Also, cement movement by rail has increased over the years.



Market share of top five players in the industry has increased from 42% in FY 02 to 56% in FY 07. In FY 07, Holcim group maintained its leadership position with market share of 22.6% followed by Aditya Vikram Birla group at 19.4%.

Domestic Cement industry is highly insulated from global cement markets. Exports have been constant at about 6% of total cement demand for past few years. With GoI intervention, making cement duty free, cement is being imported from neighboring countries. However, due to logistics issues and lack of port handling capabilities, imports of cement will remain negligible and do not pose a threat to domestic industry.

Cement demand is expected to remain buoyant driven by boost in construction sector in the country. As per estimates, investments of USD 25 bn would be required in urban housing, USD 450 bn would be required in infrastructure related projects and industrial expansion projects would witness investments of USD 88 over the next five years.

CARE Research estimates domestic cement demand to grow at a CAGR of approximately 10% for the next 5 years. The current tight demand - supply situation is expected to extend upto end of calendar year 2008 owing to delays in capacity expansion programmes by various companies. CARE Research expects prices to remain firm till the end of CY2008 due to tight demand - supply situation and increase in input costs. Thereafter, as new capacities come in, we may witness a softening in prices in some regions.

For in-depth analysis and CARE's view on the future of this sector, please refer to the exhaustive Report on Indian Cement Industry, April 2008 by CARE Research.

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